

**DEVELOPMENT AID POLICY FOR MYANMAR
IN THE REENGAGEMENT WITH THE WORLD BANK**

**An Empirical Investigation of Relationship between Official Development
Assistance (ODA) and Economic Growth Rate of Myanmar by 1991 to 2010**

By

THIHA KO KO

March 2013

**A Thesis Submitted to the Higher Degree Committee
of Ritsumeikan Asia Pacific University
in Partial Fulfillment of the Requirements for the Degree of
Master of Science in International Cooperation Policy**

**GRADUATE SCHOOL OF ASIA PACIFIC STUDIES
RITSUMEIKAN ASIA PACIFIC UNIVERSITY
JAPAN**

CERTIFICATION

I, THIHA KO KO, declare that this thesis, submitted in fulfillment of the requirements for the award of Master of Science in International Cooperation Policy, in the Graduate School of Asia Pacific Studies, Ritsumeikan Asia Pacific University, is wholly my own original work unless otherwise referenced or acknowledged.

THIHA KO KO
January 2013

TABLE OF CONTENTS

ABSTRACT	iii
ACKNOWLEDGMENTS	v
TABLE OF CONTENTS	vi
LIST OF FIGURES	viii
LIST OF TABLES	ix
CHAPTER 1: INTRODUCTION.....	1
1.1 Background.....	1
1.2 Research Problem.....	5
1.3 Research Objectives.....	6
1.4 Research Questions.....	6
1.5 Definition of Terms	7
1.6 Significance of the Research.....	8
1.7 Scope and Limitation of the Research	9
CHAPTER 2: LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Body of the Review.....	10
2.2.1 Development Aid	11
2.2.1.1 Chronological Order of Development Aid Policy.....	13
2.2.1.2 Vicious Cycle of Aid.....	18
2.2.1.3 Development Aid Policy Reform	24
2.2.2 The World Bank and Its Lending Policy.....	26
2.2.3 Prior Researches on the Relationship of Aid-Growth	35
2.3 Summary.....	41
CHAPTER 3: MACROECONOMIC ENVIRONMENT OF MYANMAR.....	43
3.1 Introduction	43
3.2 Macroeconomic Environment	43
3.3 Policy Challenges.....	46
CHAPTER 4: RESEARCH METHODOLOGY	51
4.1 Introduction	51
4.2 Research Design	51
4.3 Data Collection and Procedure.....	53
4.4 Data Analysis.....	54
4.5 Methodological Limitation	55
CHAPTER 5: RESULTS.....	57
5.1 Introduction	57
5.2 Quantitative Results.....	57
5.2.1 Descriptive Figures.....	58
5.2.1.1 Macroeconomic Figures.....	58
5.2.1.2 Development Figures.....	66
5.2.1.3 ODA Figures of Myanmar	67
5.2.2 Inferential Figures.....	72
5.3 Qualitative Results.....	74
CHAPTER 6: DISCUSSION	86
6.1 The Development Aid and Economic Growth	86
6.2 The Underlying Aid-Policy Factors.....	86
6.3 The Way Forward of Myanmar	94

CHAPTER 7: CONCLUSION	99
REFERECNCES.....	102

ABSTRACT

This study attempts to find the relationship of international development aid and economic development of Myanmar in the period of 1991 to 2010, by applying the quantitative analysis of correlation and regression. Additionally, this research explores the important policy factors of development aid – how to use aid effectively and efficiently for Myanmar targeted to apply in the reengagement with the World Bank by employing qualitative method of text analysis on the reports of the World Bank and aid-growth policy researches and studies. The ultimate goal of this research is to recommend a set of aid policy – when, where, how much and what composition of aid for Myanmar by which aid effectiveness level can be raised.

Literature review covers the areas of fundamental development thinking, development aid trend, prior aid-growth relationship researches, vicious cycle of aid, the development trap, chronological timeline of the World Bank and lending policy of the World Bank. Besides the external look, this study reviews on internal look on macroeconomic environment of Myanmar addressing the policy dilemmas of the past and policy reforms for the future.

As of research method, this study utilizes the quantitative method of correlation and regression analysis to know the relationship of aid and growth of Myanmar. In order to put the light on the lending policy of the World Bank, this study conducts the qualitative method of text analysis on the aid-policy reports of the World Bank and of other researchers.

Based on first analysis of correlation and regression - quantitative method, research found that the correlation of international development aid and economic growth of Myanmar during 20 years was weak and negative meaning that aid was not so much effective on that time and on that policy environment. Based on second research

method of text analysis, qualitative findings shows that aid alone cannot guarantee the long-term growth of the recipient countries and we need to implement ‘good policy environment’ very first in order to realize the aid-effectiveness. Both quantitative and qualitative analysis proofs that aid in poor policy environment will not be a part of solution for development and even a problem. Based on these quantitative and qualitative findings, this research come out with the result that international development aid and economic growth of Myanmar has a weak and negative relationship from 1991 to 2010. Conceptually Linked to these findings, literature review and look on policy environment of Myanmar, this study also develops a model of aid and policy – Mutually Enforcing Process of Aid and Policy (MEPAP) in which aid will interact with policy reform and policy reform will encourage aid-effectiveness level of aid and finally strong policy alone would come out for the long-term development of the country and would be an escape from risk of aid-dependency. Hence, this model can also be seen as Policy Reform to Strong Policy (PRSP) being different from old version of PRSP of the World Bank – Poverty Reduction Strategy Papers.

As of suggestion for future researches, it is recommended that further studies should explore more macroeconomic variables – saving, investment, trade and so on related to the economic growth and their knowledge contributions should also be cause-and-effect level of explanatory more than association level of exploratory in this study.

ACKNOWLEDGEMENTS

Firstly, I am indeed thankful to my supervisor, Professor Tsukada Shunso, for his kind support, pragmatic comments and excellence guidance in my research. Without his consideration on my proposal and continuous encouragement on my endeavors of thesis, I would not have been able to accomplish this thesis. I am more than delighted and grateful for all his kindness and understanding on my journey. Most importantly, sincerest gratitude is ever been to my parents who are who I am, what I do and why I am alive. I also extend my deepest gratitude to my Japanese scholarship organization, ASJA (Asia Japan Alumni) International for their kind assistances of both materials and mental.

A great honor is also extended to all APU professors who lighted my study life brighter with all of their knowledge and guidance. I thank Professor Mani, Professor Nair, Professor Salazar, Professor Gunarto, Professor Azra, Professor Miyoshi and others for all of conceptual supports and technical supports through their unforgettable lectures. I would like to thank my seminar class fellows for all their comments, questions and advices. I also thank academic office staff and research office staff for their very professional support for my academic life in APU. Also I thank student office staff for their kind support and service for convenient student life in APU.

Last but not least, I am certainly indebted to thank the country of rising sun, Japan for letting me live in peaceful and modernized environment and Ritsumeikan Asia Pacific University for letting me study by classic faculty and state-of-the-art learning facilities. Thank to everybody even not mentioned in here.

LIST OF FIGURES

		Page
Figure 2.1	A Vicious Cycle of Aid From Political Perspective	19
Figure 2.2	A Vicious Cycle of Aid From Macroeconomic Point of View (Demand-Supply)	21
Figure 2.3	A Vicious Cycle of Aid From Macroeconomic Point of View (Exchange Rate)	22
Figure 2.4	Agencies of the World Bank	27
Figure 5.1	GDP Growth of Burma (1948-62)	60
Figure 5.2	GDP Growth of Burma (1962-88)	60
Figure 5.3	GDP Growth of Burma (1989-2000)	61
Figure 5.4	Myanmar Real GDP Growth Rates	64
Figure 5.5	Annual GDP Growth rate of Myanmar (1991-2010)	66
Figure 5.6	ODA Flows to Myanmar (1991 to 2010)	70
Figure 5.7	Top Ten Donors of Gross ODA (2009-10 average)	71
Figure 5.8	The Weak Negative Relationship of Economic Growth and Development Aid of Myanmar	73
Figure 6.1	Mutually Enforcing Process of Aid and Policy (MEPAP)	92

LIST OF TABLES

	Page
Table 5.1 Myanmar Basic Economic Figures	65
Table 5.2 Balance of Payments	66
Table 5.3 Development Diamond Indicator and Economic Ratios of Myanmar	68
Table 5.4 Structure of Myanmar Economy from 1990 to 2010	69
Table 5.5 Prices and Governance Finance of Myanmar (1990-2010)	69
Table 5.6 Descriptive Statistics of Economic Growth and Development Aid	72
Table 5.7 Correlation Results of Economic Growth and Development Aid of Myanmar	73
Table 5.8 Model Summary of Regression	74
Table 5.9 Analysis of Variance	75
Table 5.10 Coefficients of Regression	75

CHAPTER I

INTRODUCTION

1.1 Background

Myanmar is the largest country on mainland Southeast Asia. It has a total land area of 677,000 square kilometers, and shares borders with five countries for about 6,151 kilometers sharing 274 kilometers with Bangladesh on the West, 1,339 kilometers with India on the Northwest, 2,205 kilometers with Laos on the East and 2108 kilometers with Thailand on the Southeast. It has total coastline of 2,229 kilometers (NCEA, 2009)

Being different from the countries of Association of Southeast Asia Nations (ASEAN) in development-facets and isolated from international cooperative regime since 1988, Myanmar have been keeping gradual transition from authoritarianism to her own political ideology, “discipline-flourishing democracy”, though she is not included in American-certified democracy areas. On account of this conviction, Myanmar has been patient over 20 years by paying first priority to three national causes: Non-disintegration of the Union, Non-disintegration of National Solidarity, and Perpetuation of Sovereignty more than economic development. Recent transformative elections of Myanmar 2010 stemmed from this over-20-year’s step-by-step reform can be assumed as second step of Myanmar political economy as market economy was already introduced since 1989.

In the respect of far-reaching political reforms of Myanmar, including new civilian government through 2010 election, the release of Daw Aung San Suu Kyi and political prisoners, the progress in ceasefire negotiations with armed ethnic groups, easing on media freedom as well as the noticeable economic reforms covering from

unifying exchange rate, legalization of trade unions, tax reform and legislation on foreign investment and banking reform, international community like US, EU, Australia and other countries have already eased sanction against the country. In particular, US President Barack Obama has announced that US companies will now be allowed to responsibly do business in Burma on July 2012. Consequently, international development organizations ranging from the multilateral organizations: the World Bank, Asian Development Bank (ADB), European Union (EU) to the bilateral organizations Department for International Development (DFID), Japan International Cooperation Agency (JICA) are getting to take a closer look at Myanmar in terms of development aid and projects. For example, DFID announced that they are going to spend 46 million pound per year until 2015. After meeting with President Thein Sein, European Commission chief Jose Manuel Barroso has also offered Burma more than \$ 100 million in development aid on November 2012. In the similar vein, Tokyo on April 2012 agreed that it would forgive 300 billion yen of the 500 billion yen Myanmar is owed. Besides, the Japan Bank for International Cooperation (JBIC) and other Japanese banks will likely offer so-called bridging loans in order that Myanmar can repay past arrears to the World Bank about \$ 397 million and to the ADB about \$ 500 million.

Of the multilateral development institutions, the world largest giant institution, the World Bank has also reengaged with the Myanmar by introducing a very first development project called “A National Community Driven Project¹”, funded by

¹ A National Community Driven Development Project, funded by a pre-arrears clearance grant of US\$ 80 million, was also approved to deliver quick benefits to the poor and vulnerable. It will empower rural communities to choose investments they need most, such as roads, bridges, irrigation systems, schools, health clinics or rural markets. The project will operate in 15 townships, one in each state, region and Union territory, with poverty as the key criteria in township selection. Communities will elect representative councils that will identify priority needs, prepare development plans, design

grant of US\$ 80 million. The Bank is working with the Japanese Government and the Asian Development Bank to clear arrears in early 2013 to enable Myanmar to access International Development Association (IDA) resources, and resume a full country program (the World Bank, 2012). Before the full country program, the World Bank is currently endorsing an Interim Strategy Note that will guide the World Bank's coming projects and works in the Myanmar for the next 18 months in the aims of accelerating poverty reduction by helping reform institutions to deliver better services to people during this cardinal transition phrase.

Under the Interim Strategy, the World Bank Group will help the government improve economic governance and create conditions for growth and jobs by providing policy advice and technical assistance in three main areas:

- Public financial management, to transparently link budgets to development priorities
- Regulatory reform, to provide access to finance for microfinance borrowers and small and medium enterprises
- Private sector development, to promote broad-based economic growth and job creation

The Interim Strategy was developed through extensive consultations with stakeholders including: government, development partners, academia, civil society organizations and the private sector. It was prepared jointly with International Finance Corporation (IFC), the member of the World Bank Group focused on private sector development in developing countries.

projects, contract materials and labor, and transparently manage and report on the use of project funds. (the World Bank, 2012)

In this context of flowing development aid and projects to the open country, absorbing capacity of the country for the aid or the digestive power of development assistance stemming from the strong macroeconomic environment, well-functioning institutions and reliable development aid policy will be core determinants of the long-term economic development of Myanmar. In particular, the research-based knowledge of development aid ranging from the impact of aid on economic growth to association of aid with economic growth will be a market-driven need of the country. In response to this need, as of March 2012, on the workshop on economic development titled by Resumption of Official Development Assistance (ODA): Views from Myanmar Perspective, U Myint² argues, “I believe it will be useful for us, at this time, to give consideration to what Myanmar *must* do on its part to make ODA effective and to ensure the enhanced re-engagement brings outcomes satisfactory both to us and to the donor community. A useful way to consider how external aid could assist Myanmar’s economic and social development is to think in terms of road racing. To win a road race three things are required: a powerful engine, a smooth track, and a skillful driver. In the case of an economy, sound policies provide the powerful engine. Good infrastructure together with high-quality economic and social institutions constitutes the smooth track. The skillful driver is a leader who inspires confidence, is blessed with sound judgment and managerial capabilities to run the economy in an efficient and effective manner.” In accordance with his metaphor, the engine power of an economy firstly relies on the policy following by implementing factors. Thus, development aid policy, current mountainous area of macroeconomic policy of Myanmar in the sense of dealing with international aid can be highlighted as a fuel of

² Economic Advisor of the President
Chief, Centre for Economic and Social Development, Myanmar Development Resource Institute (MDRI), Yangon

the engine that can be utilized for future sustainable development of Myanmar.

1.2 Research Problem

Unquestionably, no reform will get done in venerable economy. On his masterpiece “The bottom billion”, Paul Collier (1998) addressed that beyond the few reforms that just require minister to sign something: stroke-of-the-pan reforms, most reforms needs technocrats and manager able to implement change. In line with this idea and above-mentioned background: reengagement of development aid, how to deal with development aid might be a mountain point of policy making for Myanmar Government. It will stand beyond the economic engine policy, institutional road policy, and leader-driver policy. In a simple metaphor, it is about fuel policy or development aid policy.

By considering this development aid challenge of the country, this research emphasized on the following problems:

- There has been a lack of proper set development aid policy especially for the cooperation with the giant multilateral development institution, the World Bank and it is the time of re-engagement with that giant.
- There has also been a limitation on empirical studies of ODA and its impacts on growth and associations with economic development of Myanmar since 1988.
- These two absences of policy and paper can easily lead the country in to the vicious cycle of aid and aid dependency.

Even in the well-functioning engine, wrong injection of fuel can be harmful the speedy of the car. For the fresh transitioning economic engine of Myanmar, the right use of aid injection will directly affect the growth rate of the economy. Wrong and

short-term-focused use of development aid will not be so different from lack of development capital. Hence, depending on the quality of development aid policy, aid injection can be a solution or problem to economic growth and development of Myanmar.

1.3 Research Objective

With respect to the need of the country, this research was conducted by holding three major purposes:

- To investigate the development aid policy of the World Bank
- To examine relationships between official development assistance (ODA) and economic growth of Myanmar during the twenty years of market economy in Myanmar
- To recommend a proper development aid policy for Myanmar in the re-engagement with the World Bank based on investigation of development aid policy of the World Bank and examination of aid-growth relationship of Myanmar

1.4 Research Questions

This research was conducted to answer the following questions in regard to the objectives of the study.

- What is the relationship of ODA and economic growth of Myanmar during the period of 1991-2010?
- What are the crucial policy-factors in the reengagement of the World Bank Group in Myanmar that can enhance aid-effectiveness level?

Attempting to answer these two questions: one is to understand nature of the aid and

economic growth and another is to know policy of the World Bank, this research will be dedicated to produce a proper development aid policy for Myanmar.

1.5 Definition of Terms

According to Organization for Economic Cooperation and Development (OECD), and other International Financial Institutions (IFIs) like the World Bank, International Monetary Fund (IMF), the working definition of official development assistance (ODA) or official development finance (ODF) is one used in measuring the inflow of resource to recipient countries that includes (a) bilateral official development assistance, (b) grants and concessional and non-concessional development lending by multilateral financial institutions and (c) other official flows for development which has been too low in grant element to be qualified for ODA.

Official Development Assistance (OECD, 2008) is defined as those flows to countries and territories on the Development Assistance Committee (DAC) list of ODA Recipients and to multilateral development institutions, which are:

- Provided by official agencies, including state and local governments, or by their executive agencies; and
- Each transaction of which:
 - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
 - b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).³

³ This calculation helps determine whether a loan is concessional. If the loan satisfies the ODA criteria, then the whole amount is reported as ODA. The grant element itself is not reportable as a flow. Reporting is on a cash (nominal) basis, except for Paris Club debt service reduction. (OECD, 2008)

1.6 Significance of the Research

Myanmar has been living over twenty years with no cooperation and development aid with the World Bank by keeping the arrear of US\$ 397 million. Now it is time of reengagement of Myanmar and the World Bank in the context of development aid. After the World Bank aid-policy research report entitled “Assessing Aid: What Works, What Doesn't, and Why” in reviewing the fifty years’ experience of development assistance of the Bank, lending policy of the Bank have shifted from conditionality to selectivity based on policy environment of recipient countries covering governance, institutions and macroeconomic performance.

In this context in which the nature and drive of the World Bank’s aid will be up to the policy environment and performance of macroeconomic management, policy and macroeconomic indicators of Myanmar including the evidence of how Myanmar used development aid in the past might be an important message to internal stakeholders of this reengagement: aid-policy makers, parliamentarians, local non-government organizations (NGOs) and other governments agencies of Myanmar as well as to external stakeholders: the World Bank Group, international donor community, other international non-governmental organizations (INGOs). This research attempted to uncover this message and policy by conducting analysis of relationship between official development aid and economic growth of Myanmar from 1991 to 2010.

To date, no empirical studies are conducted to deliver this kind of message and recommendation especially for the re-engagement with the World Bank. Not only for the short-term growth of the economy caused by right after big flow of aid but also for the long-term economic development by the right treatment of this flow, aid policy will be a key determinant. That is why, taking into account of important criteria: relevance, impact, effectiveness, efficiency and sustainability, the

formulation of aid policy might be significant for the economic development of Myanmar.

1.7 Scope and Limitation of the Research

This research is focused on developing hypothesis about the relationship between ODA and economic growth of Myanmar during the period of 1991-2010. It has employed correlation analysis to determine the relationship between ODA and growth. In the concern of data reliability, the researcher has utilized institutionally strong secondary data form the World Bank, IMF, OECD and ADB.

Given that this study is the first exploratory research on the development aid and economic growth of Myanmar and also on the area of international cooperation policy with international development organization, the World Bank, some limitations are inevitable. The most obvious one is limited availability of data from the sources of Myanmar. Secondly, this research emphasized on the relationship of ODA and economic growth in order to know how these two variables are associated in the exploratory sense, not in the explanatory sense of cause-and-effect. Thus, knowledge contribution level of this research is just initiating level of exploratory and not yet explanatory. In this respect, this study recommends other researchers to do further investigations and researches focusing on impact of not only aid but also other macroeconomic variables: saving and investment on the economic development of Myanmar like an explanatory contribution.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Being lack of proper set of development aid policy and limited on the empirical studies of ODA and its impacts on growth and associations with economic development since 1988, Myanmar has a high possibility of using aid ineffectively and inefficiently especially in the reengagement with the World Bank.

Related to this concern, this chapter will review existing literature and researches in terms of three areas that are directly linked to the development aid policy formulation of Myanmar. The first section will address the general literature of development aid. The second section will focus on the World Bank's aid policy. The rest will discuss prior researches about the relationship of development aid and growth. The literature review of this study is also enhanced by exploring macroeconomic environment of Myanmar in preceding chapter.

2.2 Body of the Review

Starting from the birth of Bretton Wood Conference: a big milestone of today development economics and very first origin of international financial system and monetary system and to the current twenty-first century poverty reduction strategy of the World Bank and other international development organizations, development has been debated by a hundred thousand of perspectives from the different levels of researchers. Of those ideas and researches, some important perspectives related to the development aid, the World Bank and aid-growth researches would be covered.

2.2.1 Development Aid

The invention of present-day use of development and development aid has rooted from underdevelopment. On 20 January 1949, US President Truman took office and launched the idea of development by saying, “We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of *underdeveloped* areas. The old imperialism – exploitation for foreign profit – has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealing.” On this way, underdevelopment began and a new idea was opened for the world – the idea of development. Gustavo Esteva (2010) noted that Truman was not the first to use the word – underdeveloped. Wilfred Benson, a former member of the Secretariat of the International Labour Organization, was probably the person who invented it when he referred to the ‘underdeveloped areas’ while writing on the economic basis for peace in 1942.⁴ Since then, development has been assumed that getting free from the lower condition called underdevelopment.

Gustavo Esteva also remarks that, in common parlance, development describes a process through which the potentialities of an object or organism are released, until it reaches its natural, complete, full-fledged form. Hence the metaphoric use of the term to explain the natural growth of plants and animals. Through this metaphor, it became possible to show the goal of development and, much later, its programme. The development or evolution of living beings, in biology, referred to the process through which organisms achieved their genetic potential. He also highlights the transformation aspects of development idea; “it was between 1759 (Wolf) and 1859 (Darwin) that development evolved from a conception of transformation that moves

⁴ Wilfred Benson, ‘The Economic Advancement of Underdeveloped Areas’, in *The Economic Basis of Peace*, London: National Peace Council, 1942.

towards the *appropriate* form of being to a conception of transformation that moves towards the appropriate form of being to a conception of transformation that moves towards an ever more *perfect* form. During this period, evolution and development began to be used as interchangeable terms by scientists. The transfer of the biological metaphor to the social sphere occurred in the last quarter of the eighteenth century. Justus Moser, the conservative founder of social history, from 1768 talked about the transformation of some political situations, he described them almost as natural processes.” Since then, the remark of Gustavo Esteva that development cannot delink itself from the words with which it was formed – growth, evolution, and maturation is strong enough.

Another conceptual inflation of development can be seen in the reports on social situation, published by the UN. The idea of social development was introduced in the reports as a counterpart of economic development. On 1962, the Economic and Social Council of the United Nations (Ecosoc) recommended the integration of both aspects of development. Furthermore, the Proposals for Action of the First UN Development Decade (1960-70) established that “The problem of the underdeveloped countries is not just growth, but development.... Development is growth plus change. Change, in turn, is social and cultural as well as economic, and qualitative as well as quantitative.... The Key concept must be improved quality of people’s life.”⁵

By this philosophy of development of underdevelopment, development aid policy has been developed for the underdeveloped. Thereafter, development aid became the steering role of international development organizations. Following the concept of underdeveloped, beginning from 1950s, development aid policy has been embedded in their policies, programmes and projects around the developing countries starting

⁵ United Nations, *The UN Development Decade: Proposals for Action*, New York: UN, 1962

from 1950s. One of the international cooperation and development organizations, OECD has formalized the working definition of development aid - official development assistance or development aid (ODA) is one used in measuring the inflow of resource to recipient countries that includes (a) bilateral official development assistance, (b) grants and concessional and non-concessional development lending by multilateral financial institutions and (c) other official flows for development purposes (including refinancing loans) which have too low a Grant Element to qualify as ODA.

According to Moyo (2008), development aid can be categorized into three types: Humanitarian Aid or Emergency Aid, Charity-based Aid, and Systemic Aid (government to government, multilateral and bilateral aid). Humanitarian aid and charity aid have not been debated on the literature of development aid since they are a little far from policy variables of systematic level of both donor countries and recipient governments. The policy of systemic-level development aid has been researched by a lot of development economists, researchers, and even the development organizations themselves. The chronology order of development aid policy can be seen as follow.

2.2.1.1 Chronological Order of Development Aid Policy

The very onset of the development aid policy is stemmed from the formulation of international financial system and monetary system at Bretton Woods after World War II. The main objective of Bretton Wood conference is to restructure international finance, multilateral trading system, and framework for economic cooperation. On this conference, John Maynard Keynes (British Economist), Harry Dexter White (US Secretary State) planned out three international organizations: International Bank for

Reconstruction and Development (origin of the World Bank), International Monetary Fund (IMF), and International Trade Organization (ITO). The World Bank was designed to facilitate the capital investment for reconstruction of, in particular, European countries. International Development Association (IDA), one agency of the World Bank, was founded later on 1960 to support for the developing countries and poorest countries. IMF was to manage the global financial system and monetary cooperation. Its primary responsibility is to promote stability of the world economy and international cooperation as well as to forestall any possible global crisis. ITO was designed to facilitate the trade liberalization of new economies.

In the concern of the World Bank's lending, there was wide agreement that few countries would be able to fulfill the role of foreign lender. The underlying principle of the World Bank was that all member nations should participate in underwriting the risk involved no matter what country actually did foreign lending. According to Moyo, early financial transfers from that kind of international institution included a US\$ 250 million reconstruction loan to France signed on 9 May 1946 and to Netherlands, Denmark, Luxembourg. It is the heart of reconstruction process that almost certainly contributed to economic powerhouse that Europe has become today. On account of Marshall Plan (1947), fourteen European countries get assistance US\$ 13 billion. In the light of Marshall Plan success, the one thinking of economics was widely accepted that 'Investment Capital' was a key for economic growth.

Throughout 1950s, the development was targeted to improvement of gross national product of the recipient countries. The fundamental development-aid-theories at that time were big-push, takeoff, critical minimum effort. All were focused on big capital injection to the development projects. The major policy and strategy were import-substitution, industrialization, social overhead capital, and infrastructure investment

by state own companies (SOCs). Data system was employed by national income account. The role of aid during 1950s could be summarized as aggregate large-scale resource transfer, and bias toward industrial and SOC projects. At this time, it was obvious that there was a belief in governments' capacity to use aid effectively and efficiently.

As of 1960s, objective focus of development has expanded from GDP growth to balance of payment and employment. Policies and strategies were balanced growth, export promotion, foreign aid, regional integration, fiscal reform and sectorial plans. The major theories at this time are economic dualism and shadow price. Data system was based on National Income Account, Employment census and Social National Account (SNA). Two-Gap Model focusing on saving and investment as well as Technical Assistance focusing on human capital have shaped the role of aid at this time. The most obvious milestone of this decade is industrialization.

On 1970s, the objective focus of development got wider from GNP growth to employment, income distribution, poverty alleviation and external equilibrium. The striking policy and strategy of this era were comprehensive employment strategy and reformist. The cardinal theories on that time were socio-economic investment criteria and dependency theory. National Income Account and Household Survey were employed as Data System. Multilateral aid practice became the major role of aid on this era. The most far-reaching concept of this decade was poverty focus.

By 1980s, stabilization, external equilibrium (balance of payment), internal equilibrium (budgetary and monetary) and structural adjustment were targeted in development look. Stabilization and structural adjustment were two major policies and strategies at this era. The common theories were 'reliance on market' and 'link between Trade and Growth.' Social Accounting Matrix (SAM) was employed as Data

System. The greater privatization of aid was the major role of aid on this decade. Most of economists assume 1980s as lost development decade. Mexican debt crisis (1982) had challenged to undermine the very foundation of global financial stability and speeded to other part debt crisis. As a response to the crisis, IMF restructured the debt by forming “Structural Adjustment Facility” to lend money to defaulting nations to help them repay what they owed. IMF named that kind of intervention as ‘restructuring’. In the aftermath of the crisis, stabilization and structural adjustment became two new aid-based programs of this decade. Structural adjustment was designed to encourage greater trade liberalization and reduced price and structural rigidities. In the similar vein, as a result of crisis, external equilibrium (balance of payment) and internal equilibrium (budget) became overarching objective and necessary condition to restore economic growth and poverty alleviation. Moyo (2008), on this point, argued that poor governance received cash in the form of budgetary support, and in return agreed to embrace the free market solutions to development. This free market gave African economies the freedom to succeed, but also freedom to fail. Although her argument is controversial, the obvious fact is that restructuring composed of stabilization and structural adjustment cause minimizing the role of government.

Alongside the years of 1990, structural adjustment program was continued. The new objective focus of development was expanded to good governance and institutional building. Another target was to moderate effect of Asian financial crisis. ‘Role of Market and Government’ as well as ‘Social Capital’ was major theories at this decade. The strategy practiced to implement these objectives was deregulation and liberalization. The policy of stabilization and structural adjustment was also employed. The major use of data came from demographic and health survey as well as income,

expenditure and household survey. Aid fatigue threatened the existence of development aid at this decade. Consequently, reducing aid dependence and re-examination of aid-effectiveness became major role of aid. The 1990s has been tagged as a question of governance. Having seen the failure of 50 years of competing aid intervention donor put the blame on political leadership and weak institutions. (Moyo, 2008). Since then, good governance became the important determinants in the aid allocation and selectivity of the international development organizations. After fifty-year-experience of development aid, good governance and policy environment are highly ranked as the most critical success factors of the aid-effectiveness.

The 2000s was seen as rise of glamour aid (Moyo, 2008). She argued that over 50 years, 2-trillion-aid has gone to the Africa and it caused slower growth, higher poverty and Africa left off the economic ladder. Although so many reports have pointed out the diversion risk of aid, international development organizations keep operations of aid alive to where they see recipient governments' policies are in line with criteria of good policy they formulated. For example, in 2000, Millennium Development Goals (MDG) was signed up by 189 countries and US\$ 130 billion a year would be needed to achieve MDGs in a number of ways. In the similar vein, UN conference on Mexico (2002), governments agreed to increase aid GNP (0.25%) to (0.7%), US\$ 200 billion. However, that kind of big-push theory in development discipline looked over one of the crucial problem of aid – fungible.

In the review of this chronological order of development aid from 1950s to 2000s, it is obvious that development aid performance at different times and different places has mixed in terms of really effective and totally ineffective and any range between. The decisive drives behind this kind of different levels of aid-performance can be highlighted as: conditionality and implementation level of it, right selectivity criteria

and right nature of country, good governance and institution, good macroeconomic policy environment. Given that aid performance and effectiveness are over controversial and sensitive, some researchers argued that aid is working effectively if the recipient country's policy environment is good while others remarked that aid is not effective for the economic growth in particular long-term development by using different methodologies. For example, Hansen and Tarp (2000a) argued that there seems to be strong evidence for a positive effect of aid on investment and growth. By contrast, some other researches: like Hadjimichael (1995) and Reichel (1995) uncovered a negative relationship between saving and aid. The researches pointing out positive relationship are less than the ones uncovering negative relationship. Of these studies that argue aid-ineffectiveness, the "Dead Aid" by Dambisa Moyo is the one of the far-reaching work that can point out negative aspects of the development aid. More than debating positive or negative, some ideas in this book are critical in the formulation of proper development aid policy. For example, she remarked that development aid is the silent killer of growth for the Africa by pointing out the vicious cycle of the aid. To some extent, we can argue that the Africa has different nature from the other part of the world and Myanmar as well. But, we should no longer fail to recognize the nature of the vicious cycle since the theoretical structure is based on common political and economic realm.

2.2.1.2 Vicious Cycle of Aid

If one country does not have a set of proper development aid policy or it cannot use aid in effective and efficient way, aid named to reduce poverty can even be one cause of the poverty. Basically, vicious cycle of aid can be happened in three ways. First, vicious cycle of aid can be seen from politic-based view in which the injection of aid

cash leads to corruption of the government in each level. That corruption that is larger than normal can make low transparency level of the government. It can also undermine bureaucracy structure of the recipient government and lower the performance of it. This kind of poor policy and institutional environment will be a bad new for prospective investment figures. No attraction to investment will bring fewer job opportunities for the people. That can easily lead to poverty. Finally, this poverty will be targeted again by development aid policy and programs. (See Figure 2.1)

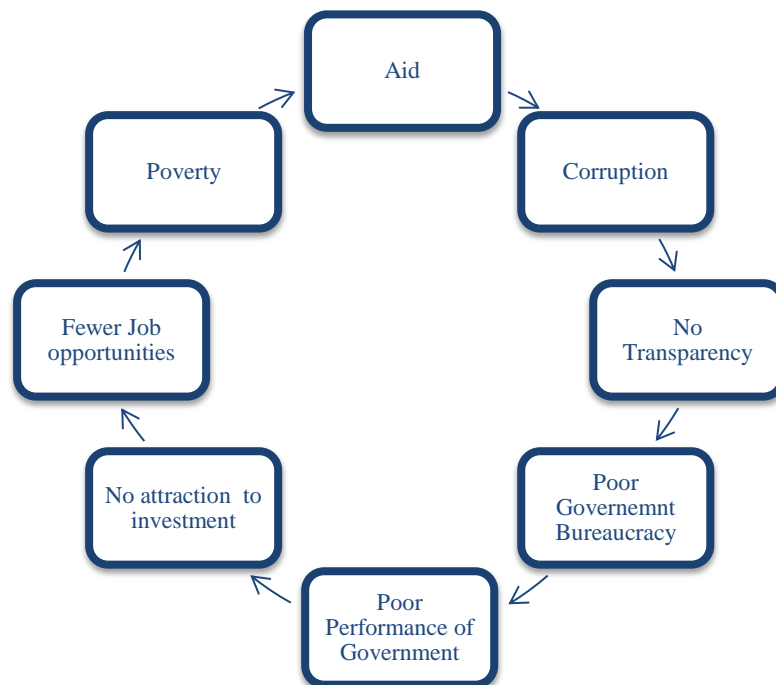


Figure 2.1 A vicious cycle of aid from political perspective

Concerning about that corruption, Moyo argues that since 1946 the World Bank loan to developing countries about US\$ 525 billion and 25 % (US\$ 130 billion) of them has been misused and aid has gone to corrupt countries. For example, IMF gave the largest loan it had ever given to African country. Next 10 years, Mobutu's Kleptocracy made US\$ 700 million from the Fund. Moyo also answered the question

of why development aid has gone to that country if it can lead to corrupt by giving two reasons. One is about employment of the international development organizations. The World Bank employs 10,000 workforces while IMF employs 2500 staffs, and UN agencies, 5000 in the business of development aid. The other one is that donors are apparently agreed on which countries are corrupt and which are not.

Secondly, it can also be viewed from the macroeconomic point of view in terms of basic demand and supply concept. An immediate injection of cash can raise the consumption level of the market in recipient countries. In a well-functioning macroeconomic environment, that kind of increasing demand will be equilibrated by the function of supply at one time. But, it will be a different story for the countries in which the supply side cannot follow up the immediate increasing demand and consumption. So, this higher consumption can easily make the price of the goods and services high. This situation can call for the abnormal inflation level of the country. In order to response this abnormal inflation, economic policy maker may raise the interest rates. In the way of normal process, higher interest rate can cause less investment since the borrowing cost to investment is not attractive. Less investment calls for fewer jobs and fewer jobs call for poverty. Poverty is where aid goes. (See Figure 2.2)

Thirdly, the vicious cycle of aid can be occurred in the way of another macroeconomic variable – exchange rate. Aid money will flow to the recipient country by the process of transition from the currencies of the donors' countries to the currencies of the recipients' countries. It can raise the value of local currency and encourage the appreciation of it. This appreciation of local currency will make the export of the country expensive. Since these exports are not competitive in the international trade environment, the export amount of the country will get decreased

along with the rising level of local currency. That low level of export will lead to the low level of national income. Low level of income can be pre-condition of the poverty. Poverty is what development aid concerns. (See Figure 2.3)

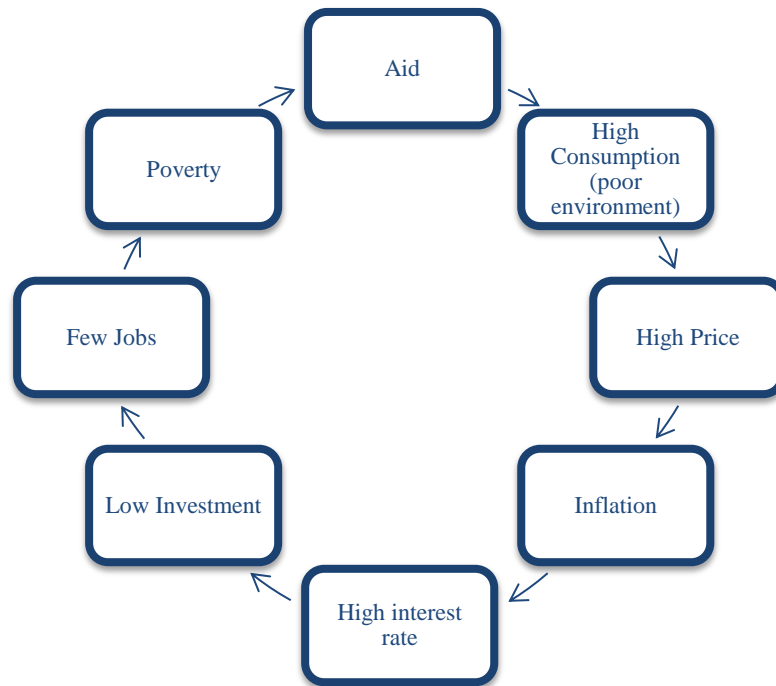


Figure 2.2 A vicious cycle of aid from macroeconomic point of view (demand-supply)

Although these conceptual looks on aid are not so much optimistic, three points of views of vicious cycles of aid: political cycle, macroeconomic cycle (demand-supply) and macroeconomic cycle (exchange-rate) are useful and concrete to be paid attention in the formulation of development aid policy by aid policy makers and also donor community.

In contrast to Moyo's look on development aid from international development organizations, Paul Collier remarked that aid could be utilized as an instrument to escape from the trap of the poverty. He argued that a society could gradually climb

out of poverty, unless it gets trapped. He has grouped the traps in to four groups: conflict trap, natural resource trap, landlocked trap and bad government trap. Not only about the traps but also instruments that can address these traps has been mentioned – aid, military intervention, law and charter, and a charter for investment. Although landlocked trap is no longer challenge for Myanmar, the rest three traps will be important challenges for the long-term development of the country. Among instruments, aid is what Myanmar will be cooperating with international development organizations on her transition. Paul pointed out that aid alone is really unlikely to be able to address the problems of the bottom billion, and it has become so highly politicized that its design is often pretty dysfunction. Based on its application, Paul has viewed the aid from four points of views: aid as an incentive, aid as skill, aid as reinforcement, aid prior to reform. He suggested that the key objective of government conditionality should not to shift power from governments to donors but to shift

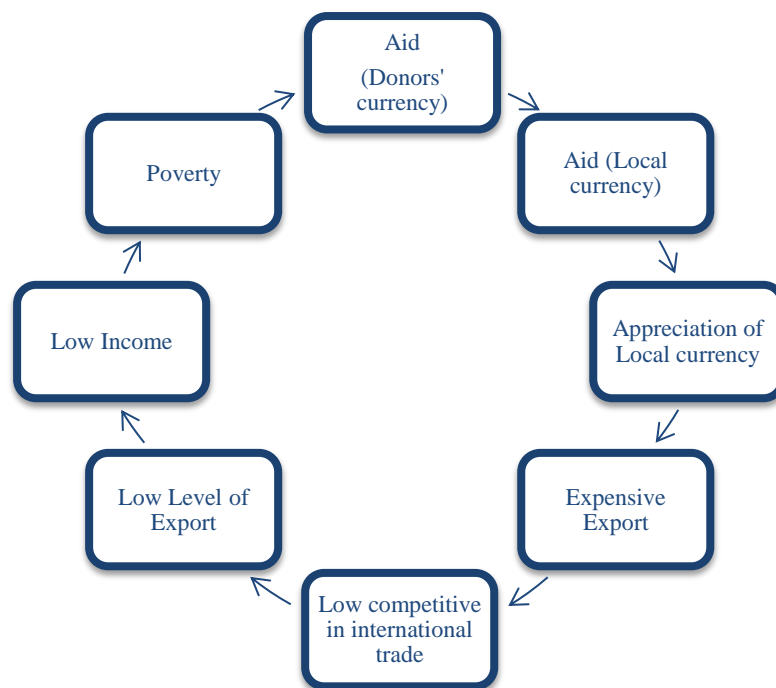


Figure 2.3 A vicious cycle of aid from macroeconomic point of view (exchange-rate)

power from government to their own citizens so as to make aid as an incentive. Good news for Myanmar is that the project selection of the World Bank' grant to Myanmar about US\$ 80 million will be decided by the community, not government. Paul also argued that aid can be used effectively like skill-focus. Rather than giving the money to the government, focus area of aid should be the capacity building of the civil servants and government as technical assistance. He recommended that technical assistance is more effective in the transition-country headed to the development.

“The better the prospects of a turnaround, the more technical assistance the donors might choose to supply.” (Paul Collier 1998)

He also suggested that aid can be used as reinforcement so as to encourage development-oriented turnaround.

“Aid is not very effective in inducing a turnaround in a failing state; you have to wait for a political opportunity. When it arises, pour in the technical assistance as quickly as possible to help implement reform. Then, after a few years, start pouring in the money for the government to spend.” (Paul Collier 1998)

Another suggestion is that aid can be designed prior to reform. Although it can be a cumbersome approach, it can also increase success rate of project.

“The traditional way of trying to ensure that aid is spent properly is through projects. Instead of just giving unencumbered money to government, the agency agrees on a project with the government and helps to design and implement it.” (Paul Collier 1998)

Besides the aid as an instrument for the capital problem of the developing countries, he also uncovered another problem of them: a lack of reform credibility. In the situation of what the government judicial system is not enough to guarantee the investor insurance, according to Paul, two complementary solutions of international arbitration and investor insurance should be provided.

2.2.1.3 Development Aid Policy Reform

In the study of how policy reform and effective aid can meet international development goals, Paul Collier and David Dollar (2001) investigate scenarios of policy reform and efficient aid that point the way to how the world can cut poverty in half in every major region. They argued that poverty in the developing world will decline by about one-half by 2015 if the trends of the 1990s persist and most of this poverty reduction will occur in Asia, however, while poverty will decline only slightly in Africa. They recognized that effective aid could make a contribution to greater poverty reduction in lagging regions and even more potent would be significant policy reform in these countries. They developed a model of efficient aid in which flows respond to policy improvements that create a better environment for poverty reduction and effective aid. They also pointed out four counterfactual scenarios of aid and reform: efficient aid, efficient and more generous aid, efficient aid and policy reform, and policy reform plus efficient and more generous aid. First scenario of efficient aid holds policy constant and allocates aid efficiently year-by-year based on the algorithm in the previous section. Second scenario of efficient and more generous aid hold policy at its current level, allocate aid efficiently, and allow the marginal utility of aid to rise over time (more concern from the first world). Third scenario of efficient aid and policy reform assume that policy in sub-Saharan Africa and Europe and Central Asia (ECA) attains the average level in South Asia, and allocate aid efficiently as in first scenario. Fourth scenario of policy reform plus efficient and more generous aid combines the policy reform of third scenario above with the efficient and more generous aid of second scenario. (They call this fourth scenario the ‘partnership approach’: Third World governments provide good policies while first world governments ensure adequate aid, efficiently managed.). Among

these four scenarios, even fourth scenario of policy reform plus efficient and more generous aid called partnership approach of aid and policy reform is an idealistic approach for current reform and transition of Myanmar, she can enjoy the better-off condition of third scenario – efficient aid and policy reform. The current political and economic reform of Myanmar could attract aid flow from the international development organizations, in particular the World Bank, and if that flow can encourage the policy and institutional performance and can speed up the velocity of the reform, this improvement in performance can better attract not only development aid of the international organizations but also international investment of foreign direct investment (FDI) as well as foreign Portfolio Investment (FPI). After keeping effective use of aid to some years and constructing policy and institutional environment strong in enough time, Myanmar can be independent of development aid and can stand out of the world with well-functioning institution and strong macroeconomic and investment environment. That will be better-off treatment of development aid policy for Myanmar in two ways: first to use aid effectively and efficiently as means in the construction of good policy and second to conclude with the ends of good policy. This kind of aid-policy functioning by Paul and David will be helpful for Myanmar to escape so-called vicious cycle of aid by Moyo. It can be clarified by the final product of their research on aid policy – a model of efficient aid in which policy and aid interact in several important ways:

- “aid increases the benefits from good policy, while at the same time good policy increases the impact of aid; thus, the combination of good policy and aid produces especially good results in terms of growth and poverty reduction;
- by introducing the concept of the marginal utility of poverty reduction to first world taxpayers, we make the volume of aid endogenous; in particular, it increases when

policies are improved, because in the better policy environment more aid can be used effectively;

- we assume that policy is determined by developing country political processes and is independent of aid; however, the fact that aid increases the benefits of reform suggests that a high level of aid to strong reformers may increase the likelihood that good policy is sustained (an idea ratified in a number of recent case studies of low-income reformers); to the extent that that is the case, our estimates of the benefit of aid to good policy countries are too low.” (Paul and David, 2001)

In this context, they concluded, in positive way, in contrast to Moyo, that foreign aid with right functioning of policy could accelerate the process of economic reform. Although they have different approaches and conclusions, the similarity of their different points of views is the importance of policy – how to use the aid effectively and efficiently for the recipient countries and how the donor encourage the policy construction of government by using development aid.

2.2.2 The World Bank and Its Lending Policy

The very origin of the World Bank, the International Bank for Reconstruction and Development (IBRD) was invented together with the International Monetary Fund (IMF) on July 1944 at Bretton Woods, a small town in New Hampshire, United States. The major aim of the IBRD was to help reconstruct Europe from the devastation of World War II. At this time, the focus of lending policy existed in the reconstruction given the natural disasters, humanitarian emergencies, and post conflict rehabilitation. After Europe got on track to reconstruction, the IBRD shifted focus to the needs of the developing countries and named the mission - fighting the poverty. In order to provide special services to the poorest countries, international community agreed to create a new specialized development association. That is the reason why the

International Development Association (IDA) got appeared. Thereafter, the IBRD and the IDA together are commonly referred to as the ‘World Bank’. Nowadays, the Bank provides a service of lending money and knowledge sharing to socio-economic development of the world, operating in more than 100 countries. Over time, the greater the challenges of the development shaped the structure and operation of the organization bigger, broader and far more complex. Finally, the IBRD has become a Group, covering five closely associated development institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). (See Figure 2.4)

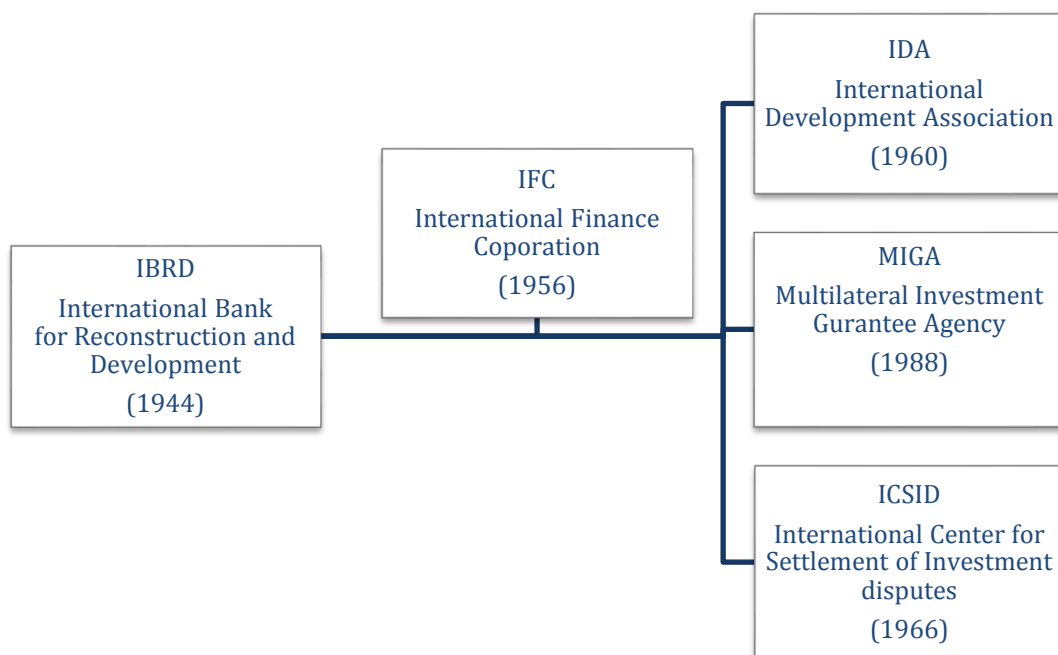


Figure 2.4 Agencies of the World Bank Group

By the expertise of these specialized institutions, the World Bank today has been playing the steering role in development areas of the world. Instead of running like a commercial banks and investment banks, it has specialized on the development banking by keeping two major roles of its operations: international development aid agency's role and international development research center's role. Under the professional role of international development aid agency, the Bank is providing ordinary loan, concessional loan, technical assistance and delivering projects and programs in developing countries once overall lending has been agreed and keeping eye to program quality and development impact. Besides, for the academician role of the international development research center, the World Bank's research departments are publishing world-leading research papers and books. Another undeniable good thing of the World Bank's research is open data to all. The research team processes data gathered from different countries and projects, and advices proper approaches to construct development.

The Bank's Lending Policy

Right after the formation of the IBRD on 1944, the Bank's lending policy has been based on reconstruction. The Bank made first loan of US\$ 250 million to France. That kind of Marshall Plan was the major lending policy of the Bank around 1940s. By 1950s, the Bank's policy focus has been shifted to infrastructure and industry by the creation of IFC. On the years of 1960s, agriculture was targeted as the most priority area of the Bank's lending. In those years the Bank created IDA and ICSID. By 1970s, the policy focus of the Bank has been shifted to basic needs and education. The Bank made its first loan to population planning at this time. In response to the debt crisis, the World Bank has implemented structural adjustment policy lending on 1980s. The

Bank also created one of its agencies at this time – MIGA. On 1990s, the World Bank's aid policy has focused on economies in transition. There have been a lot of studies that criticized failure of the aid program from the Bank and conditionality. By this aid fatigue years, the World Bank responded the criticism by publishing the policy report of 'Assessing Aid: What works, What doesn't, and Why' pointing out the fungibility and diversion risk of the aid. After this aid policy report and the ineffectiveness of the conditionality, the Bank lending policy has been upgraded to selectivity based on policy indicators of the recipient countries like good governance, good institutions and strong macroeconomic environment. On these years, the Bank introduced the Comprehensive Development Framework (CDF). It also started the initiative of the Heavily Indebted Poor Countries (HIPC). Getting into the year of 2000, in line with globalization wave, the policy focus of the World Bank emphasized on the global partnerships with the aim of Millennium Development Goals (MDGs).

In these timeline of the World Bank lending policy, conditionality and good governance have played a major role of aid allocation. The Bank has highlighted six major criteria of a good government as follow

- Voice and Accountability
- Political stability and absence of violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

Among different determinants of aid allocation by international aid agencies like colonies country, political position of country with Western country (measured by voting behavior in UN), good governance, political right and civil liberties and GDP

per capita (Eric Neumayer, 2003), good governance and GDP per capita has been major policy variables of the World Bank's loan disbursement. However, these policies of good governance and conditionality have not been a success story. In the context of Africa, Paul Collier (1999) asserted that International Financial Institutions (IFIs) have radically overestimated their own power in attempting to induce reform in very poor policy environments and in effect, ignored domestic politics. He also argued that the IFIs must radically redesign their lending policies, revisit their traditional assumptions and adopt a more selective approach rewarding good behavior and performance. Some other extremist researches also suggest that aid dependency can even undermine the quality of governance. In his research of 'Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis', Stephen Knack uncovered that aid has been associated with an increase in corruption, deterioration in the quality of the bureaucracy and a weakening of the rule of the law. Looked at another way, in their influential study of aid, policy and growth, World Bank economists Craig Burnside and David Dollar (1997, 1998) argued that aid has been highly successful in reducing poverty and promoting growth in countries with sound economic management and robust government institutions. They found no empirical evidence that the policy was directly affected by the amount of aid. Devarajan, Dollar and Holgren (2001) also argued that aid cannot buy reform and that the conditionality attached to adjustment loans did not successfully induce policy change. However, when reforms had been initiated, foreign assistance helped accompany reform and assuaged social costs of adjustment (Carlos Santiso, 2001). Collier and Dollar (2001) also asserts that aid allocation needs to take corruption into account because, even if aid cannot significantly reduce corruption, corruption can significantly impair aid effectiveness. Hence, the influential impacts of corruption on macroeconomic

environment and aid effectiveness have been major key policy variables for the Bank's lending and loan disbursement since 1990s.

In order to address this kind of hot debate of development aid lending policy, the World Bank issued the report "Assessing Aid: What Works, What Doesn't and Why" on 1998, recommending a more strategic way of aid allocation to poor countries with good policies and strong institutions with the aim of to increase the effectiveness of aid. As a result of this report, the determinant of aid allocation is driven not only by the obvious needs of the recipient countries but also by their performance in implementing reforms. The idea of Performance-based Aid has stemmed from that report. On the early 1999, the World Bank has also proposed the Comprehensive Development Framework (CDF). According to the Joint Note by James D. Wolfensohn and Stanley Fischer (2000), "CDF is a means by which countries can manage knowledge and resources to design and implement effective strategies for economic development and poverty reduction. It brings together many current trends in development thinking and is centered on a long-term vision – prepared by the country through a participatory national consultation process – that balances good macroeconomic and financial management with sound social, structural and human policies. The CDF, however, is not a blueprint. It is voluntary, and each country must decide on, and own, its priorities and programs. In order to ensure the most effective use of human and financial resources, the CDF emphasizes partnerships between government (at the national and local levels), civil society, the private sector, and external assistance agencies. It encourages coordination to improve efficiency and coherence in the use of financial flows and services, and to take advantage of synergies among development partners. In addition, as the international community has increasingly come to recognize, partnership and coordination of efforts can

enhance the capacity of governments to manage foreign development assistance.”

Like other conceptual framework of economics, CDF is a useful way of formulating development aid policy for Myanmar especially focusing on the cooperation with international development community and effective use of development aid. It is useful for Myanmar because main four principles of CDF are targeted to long-term growth of the recipient country through effective use of aid. These principles can be seen as follow.

- “Development strategies should be comprehensive and shaped by a long-term vision.
- Each country should devise and direct its own development agenda based on citizen participation.
- Governments, donors, civil society, the private sector and other stakeholders should work together in partnership led by recipient countries to carry out development strategies.
- Development performance should be evaluated on the basis of measurable results.” (the World Bank, 2012)

Of these principles, the most useful principle for Myanmar is the second principle of own development agenda based on citizen participation since the ultimate power of making development policy would be still in the hand of her own while keeping the cooperation with stakeholders. It seems that CDF is more transparent and comprehensive to the communities of the recipient countries. However, as long as it fails to enhance the capacity of government to use aid wisely, it will only be a paper-cooperation and a paper-framework.

Another leading policy paper of the World Bank’s lending is the Poverty Reduction Strategy Paper (PRSP). That is also stemmed from the principles of CDF. PRSP

combines poverty reducing policies into development oriented macroeconomic framework. Similar to the concept of the CDF, the preparation of PRSP will be primarily responsible by the government and external partners are encouraged to assist governments in preparing PRSPs. Finally, the Bank will endorse PRSP to provide a basis for both institutions' programs in low-income countries. James D. Wolfensohn and Stanley Fischer (2000) states that PRSP is an operational vehicle – which can be specific output of the CDF or of processes based on CDF principles – that are intended to translate a country's poverty reduction strategy into a focused action plan. Indeed, countries using the CDF (such as Ghana, Uganda and Bolivia) have been at the forefront of those successfully preparing PRSPs. They also argued that the CDF and PRSP should be mutually reinforcing in which the PRSP process will focus the attention of a larger number of governments on CDF principles and it will also ensure more effective collaboration between the Bank and the Fund in supporting countries, as specially requested by their major shareholders. The three major challenges of the PRSP can be seen as follows.

“First, there is the challenge of allowing the time needed for the development of a fully participatory process while not delaying the delivery the delivery of debt relief or development assistance. Second, there is the need to ensure that all development partners are also included fully and early in the process. Third, care needs to be taken to ensure that country-led and owned processes are not weakened by the need to produce PRSPs or progress reports according to an annual timetable. We are committed to working together with countries and our development partners to meet these challenges and reduce poverty.” (James D. Wolfensohn and Stanley Fischer, 2000)

After the report of Assessing Aid and CDF, the lending policy of the World Bank has paid great attention to the policy variables of the recipient country - good governance, good institution and good macroeconomic performance. In order to measure

performance of these variables, the Bank has exercised the Country Policy and Institutional Assessment (CPIA) by 2009. The CPIA is one of the assessment policy tools that measure four important areas of the country policy environment: Economic Management, Structural Policies, Policies for Inclusion/Equity, and Public Sector Management and Institutions. Under the cluster of Economic Management, CPIA measures three sub-areas namely Macroeconomic Management, Fiscal Policy and Debt Policy. Under the second cluster of Structural Policies, CPIA looks into three sub-areas called Trade, Financial Sector, and Business Regulatory Environment. For the measurement of third area of Policies for Social Inclusion/Equity, CPIA analyses five sub-areas of Gender Equality, Equity of Public Resource Use, Building Human Resources, Social Protection and Labor, and Policies and Institutions for Environmental Sustainability. Under the forth cluster of Public Sector Management and Institutions, CPIA addresses to measure five sub-areas: Property Rights and Rule-based Governance, Quality of Budgetary and Financial Management, Efficiency of Revenue Mobilization, Quality of Public Administration, and Transparency/ Accountability/ and Corruption in the Public Sector. These 16 CPIA criteria are currently playing a steering role of the World Bank's lending policy. The Bank has also believed that these criteria are the underlying blocks for the construction of development of the country. Unquestionably, these might be urgent policy focus for the transition and reform of Myanmar not only for the reengagement with the World Bank, but also for the long-term growth of economic and development of the country itself.

2.2.3 Prior Researches on the Relationship of Aid-Growth

The researches of development aid can be divided into two major groups. The first is ones dealing with the impact of aid on macroeconomic realm like saving, investment and GDP growth. This can be grouped as macroeconomic studies of development aid. The second type of studies is focusing the effects of aid on micro-aspects of the country such as project analyses and short-term evaluation of the development project. This research will focus on the macroeconomic aspects of the development aid, in particular the relationship of the ODA and growth. Has development aid been a positive relationship or negative one with growth? Since 1960s, many researchers have looked at the relationship and impact of aid on macroeconomic variables: saving, investment and growth. Although these studies found empirical output in each aspect and contributed the large literature on aid and growth, “the debate about aid effectiveness is one where little is settled” (Rajan, 2005, p.54). For example, Boone (2006) has reiterated that “the history of large aid flows is, to date, a major failure”, while Brunside and Dollar (2000) found that aid promotes growth, but only when policy is “good” (Finn Tarp, 2006). A special adviser to the UN Secretary General on the Millennium Development Goals (MDGs), Sachs (2005) argues that aid has worked and should be “scaled up”. Looked at another way, some studies argued that structural loans and conditionality of the IMF and the World Bank are disappointing and even harmful to the economy of the recipient country. With regard to this hot debate about aid-growth, this paper contributed the literature review of aid-growth by grouping two periods of development aid researches: before and after of Assessing Aid – the report of the World Bank (1998).

In the late 1960s and 1970s, Two-gap model developed by Harrod-Domar has influenced in the literature of development economists. According to them, an

injection of aid primarily causes an increase in consumption. In this sense, aid can be substituted for domestic saving. Yet, many authors have heavily criticized the aid advocates by pointing at several major drawbacks of gap models, such as the implicit assumptions of constant saving rates, constant incremental capital-output ratio, constant prices and constant exchange rates and these models have been criticized for the use of an unrealistic production function, which does not allow for substitution between inputs. (Niels Hermes and Robert Lensink, 2002). Other critics have pointed out that aid may negatively effect on savings, and on account of this effect, aid can also a negative impact on the long-term growth. In order to bring the favorable effects on growth, aid firstly needs to be positively associated with two key variables of the macroeconomics: investment and saving. As long as it has a negative impact on saving and investment, it is too far to conclude that development aid has a positive impact on the long-term economic growth. Hence, most of the authors that made analysis of aid and economic growth before *Assessing Aid* report argue that the impact of aid on macroeconomic environment has not been big or that there has no effects of aid on long-term economic growth. Among them, one of the most obvious studies is about “Overseas Development Aid: Its Defence and Reform” by Mosley (1987). He argues ‘there appears to be no statistically significant correlation in any post war period, either positive or negative, between inflows of development aid and the growth rate of GNP in developing countries when other causal influences on growth are taken into account’ (Mosley, 1987). Another contribution of his study is about the micro-macro paradox: most micro-project related studies on aid are quite positive about the effectiveness of aid, whereas most macro-studies do not find any evidence for positive effects of aid. White (1992) also asserts that ‘We know surprisingly little about aid’s macroeconomic impact’, and ‘The combination of weak theory with poor

economic methodology makes it difficult to conclude anything about the relationship between aid and savings... and aid and growth' (White, 1992). By contrast to White and Mosely, Hansen and Tarp (2000a) argue that we can certainly learn something from the traditional macroeconomic aid studies: aid works, although not as well as we have sometimes hoped. They assert that micro-macro paradox does not exist. They conclude that there seem to be strong evidence for a positive effect of aid on investment and growth (Niels Hermes and Robert Lensink, 2002).

The Assessing Aid report (World Bank, 1998) is the first report highlighting that effectiveness level of aid is up to the performance of the policy environment in the recipient country. The report finds that aid has a positive impact on growth, but in the selection of countries with sound economic management, or good governance. Based on this finding, the Assessing Aid report recommends that aid should be allocated by selecting recipient countries with respect to their policy environment. This recommendation has been a comprehensive message to aid policy-makers of donor community and government. It seems that Assessing Aid has contributed into the area of aid-policy making. For example, Dutch government has utilized the recommendation of the report in its restricting of its aid policies. Actually, the findings of the Assessing Aid report are primarily stemmed from the earlier studies of aid, in particular the research of Burnside and Dollar (2000). In their study of cross-country regression analysis for 56 low-income countries over the 1970-93 periods, Burnside and Dollar show that aid has a positive impact on real GDP per capita growth, but only when aid is interacted with a policy index variable, reflecting fiscal, monetary and trade policies (Niels Hermes and Robert Lensink, 2002). Based on their finding, it can be assumed that if some countries without good fiscal, monetary and trade policies are selected as aid recipients, the aid flow to those countries might be

wasted because they cannot encourage the long-term economic growth. According to the research's finding and argument of Burnside and Dollar – aid may increase growth, but only when the government of a country carries out 'good' fiscal, monetary and trade policies, it is obvious that aid flow going to country whose policy environment is not good has the high possibility of ineffectiveness. Because, the poor policy environment and institutions will not be able to use aid in proper way due to the poor capacity building of institution and aid delivery. In other words, aid to the country without good macroeconomic policy can be ineffective because the absorbing capacity of recipient country's policy and institution is weak. This argument of Burnside and Dollar is also conceptually similar to the main argument of the Assessing Aid report. The main conclusion of the report is that aid allocation should be based on the policy environment and institution of the recipient country.

Another background research of the Assessing Aid report is Collier and Dollar (1999). The major contribution of their study is a so-called poverty-efficient allocation of aid. Although the Assessing Aid and its background researches finding out aid effectiveness in good policy environment has been influential in development aid policy-making, they have been criticized in particular from academic realm. For example, Dalgaard and Hansen criticized the economic analysis shown in the Burnside and Dollar study in two ways. First, they contribute the model that is enough to proof that good economic policies can improve growth, while at the same time they reduce the effectiveness of aid. Second, by using same data set of Burnside and Dollar and by producing different output, they criticize on the econometric work of Burnside-Dollar research. Finally, they conclude that the claims made in the Assessing Aid report on the importance of the policy environment for the effectiveness of aid are fragile, since the econometric investigation backing this claim

is strongly data dependent. Rather, Dalgaard and Hansen would claim that, based on their own econometric analysis presented in the study, the relationship between aid and growth is inverted-U shaped, that is, there are decreasing returns to aid (Niels Hermes and Robert Lensink, 2002). The poverty-efficient allocation of aid developed by Collier and Dollar (1999) has also been criticized by Lensik and White in two ways. First, in the similar vein with Burnside-Dollar research, aid is working when selected countries with a good macroeconomic policy environment. Second, aid has positive impact on growth, but after getting to a certain point, it can even be harmful to the macroeconomic environments of the recipient countries. These countries might be blocked into aid fatigue and in other words, it can lead to aid dependency. The main concern of their study is the question of how high aid flows should become to change into a negative impact on growth after encouraging it on a certain level. They developed an illustrative theoretical model so-called aid-Laffer curve by the empirical analysis of a pooled cross-section time series analysis using data for the 1975-92 period for 138 countries. Based on that model, they argue that if the absorptive capacity (macroeconomic environment) of the recipient country is weak, aid flows to that country will not be productive. With regard to the evidence on the existence of an aid-Laffer curve, Lensink and White assert that the level where aid changes to be a negative stimulation for the economic growth is very high. That is the contribution of their study – a ratio of aid to GNP above 50 per cent can lead to the country to be ineffectiveness of aid and even that aid can be a negative impact on the long-term growth of the country. In other words, they point out new aspect, the diminishing return of the development aid. However, their work has also been criticized by Mwanza Nkusu. ‘While the LW model takes an interesting approach for exploring the idea of nonlinearity in the aid-growth relationship, an examination of its structure

reveals several weaknesses that affect its quality. This comment criticizes the LW model on three fronts: the specification of technology, the impression and very limited usefulness of model's conclusion, and the failure of the model to mimic the stylized facts of a likely aid-recipient economy in a manner that consistently support the notion of negative returns to aid and its relevance for development policy' (Mwanza Nkusu, 2012). Although his comment on LW model is logical, diminishing return of development aid deserves to be taken into account for aid-policy making of Myanmar because how much aid flow should be injected is one of the key questions in the formulation of development aid policy. It is important because over injection of aid more than right amount can lead to the negative impact of aid and ineffectiveness of aid. At the same time, over injection of aid can lead Myanmar to the aid dependency. Hence, if Myanmar overlooks diminishing return of aid concept, too much aid will drive the country to aid-dependent country and not to long-term growth. More specially, according to the research contribution of Lensink and White, aid to GNP ratio of Myanmar should not be over 50 per cent because aid amount over that range can be diminishing returns and can lead the country to be ineffectiveness of aid and even that it can be a negative impact on the long-term growth of the country. Among the researches criticizing the Assessing Aid report, study of Guillaumont and Chauvet is unusual given that they argue that the impact of aid on the economic growth is crucially dependent on external and climate factors, rather than on the economic policy environment. They point out some example factors: long-terms of trade fluctuations, short-term export instability, floods, droughts, earthquakes, etc. Through the time series analysis on the 1970-93 periods of 66 developing countries, they argue that aid and the external environment indicator has a statistically significant positive impact on growth but no significant relationship for policy

environment indicator. That is why, their study is totally different from the work of Burnside and Dollar on the importance of the macroeconomic variables to rise up the effectiveness level of aid. They assert that good policy environment of macroeconomics by itself can drive economic growth. In this context of whether aid has a positive impact on the economic growth or not, aid-growth relationship has become a key debate in the area of development economist. Unquestionably, in the operation trend of development aid in where different types of development aid from different kind of organizations to different macroeconomic and politic environments of the developing countries, the formulation of development aid policy is needed to be strategic and flexible with respect to the nature of local macroeconomic environment, political institution, cultural diversification and priority areas of the recipient countries

2.3 Summary

With the aim of formulation of a development aid policy for Myanmar in the reengagement with the World Bank, in this paper, the researcher reviews four areas of development aid literature: development aid in general view, the World Bank and its lending policy, economic environment of Myanmar and prior researches of aid-growth relationship. For the general view of development aid, the researcher looks at the leading contribution of Paul Collier's development aid as an instrument and also vicious cycle of aid by Moyo. In the review of lending policy of the World Bank, the researcher addresses the historical and current policy tools of the Bank such as conditionality, selectivity by good governance, good macroeconomic environment, good institution, performance-based aid and CPIA. Finally, the literature review is

empowered by addressing different points of views by different researchers from different areas on the aid-growth relationship.

CHAPTER 3

MACROECONOMIC ENVIRONMENT OF MYANMAR

3.1 Introduction

With the aim of making the literature review more relevant to research question and more powerful, this chapter addresses the overview of Myanmar's macroeconomic environment in particular policy dilemmas in the past and policy reforms for the future. These policy discussions are followed up by the policy recommendation of U Myint and Tin Soe.

3.2 Macroeconomic Environment

After getting the independent from the British Government, the economic policy of Myanmar can be divided into three eras: Parliamentary Democracy period (1948~1962), Socialist-oriented Period under military government (1962~1988), and Market-oriented period under military government (1988~2010). According to this chronological timeline, the current reform of Myanmar's economy can be named as second step to market economy with new civilian government instead of market economy by military government. Alongside the political reform and internal conflict, economy of Myanmar has been far from stable growth in all of three eras though short-term growth in 1950, 1960, and some years of 2000s. In the 1960s, Myanmar was one of Asia's leading economies. Its per capita income in 1960 was about US\$670 – more than three times that of Indonesia, more than twice that of Thailand, and slightly lower than that of Philippines (Booth 2003). According to the statistical figures of the Myanmar, it was reported impressive GDP growth rates, averaging 10.2% during 1992-2010 and 12.2% during 2000-2010. However, these official growth figures have been deemed overstated and rather unreliable given the country's

poor statistical capacity and use of outdated methodologies (Myint 2009). That is why, in contrast to the figures of government of Myanmar, the IMF (2010) estimates that Myanmar had Southeast Asia's lowest per capita GDP in purchasing power parity despite relatively good growth during 2000-2010.

The ADB (2012) pointed out that the key factors inhibiting Myanmar growth rate in the last decades are low investment, limited integration with global markets, and dominance of state-owned enterprises in key productive sectors of the economy, and frequent episodes of macroeconomic instability. That kind of macroeconomic scenario might be the major failure of attracting the investment both locally and internationally. Inflation stands at 4.2% for 2011 and is expected to rise to 6.2% in 2012 as the effect of the recent moderation in food prices fades (ADB 2012a, 2012b). According to these figures, the inflation in Myanmar seems only one digit and over optimistic. By contrast, the price level in Myanmar has been raised four times in the years of 2000s. Hence, it is obvious that Myanmar has suffered in more than one digit level of inflation or high inflation. It was mainly caused by the monetization of the Central Bank of Myanmar (CBM) with the aim of financing the government budget deficits. At that time, the CBM was not an independent organization in monetary policy making and it was just a department within the Ministry of Finance and Revenue (MOFR), Myanmar.

Myanmar's high public debt level – estimated at 47.6% of GDP in 2010 – is a concern (IMF 2012). In account of poor revenue performance and high military expenditure, fiscal balance has always been negative. Official Development Assistance also decreased from 435 million USD in 1988 to 175 million USD in 1989 and it stood at 146 million USD by 2006 (the World Bank 2009). This restriction of development aid became major shortage of fund for the development challenges beside the limited

revenue source of the country. According to statistics of the Central Statistical Organization (CSO), the average tax-to-GDP ratio during 2004-2010 stands at 3.6% even while the revenues from the natural gas exports have been rising. The ADB (2012) asserts that this is due to the underestimation of revenues, as foreign currency denominated revenues and expenditures were converted to kyat at the official rate at about MK5-MK6 per US dollar⁶ for fiscal purposes rather than using the foreign exchange certificate market exchange rate, which is much higher and more realistic. However, even when these revenue figures are adjusted under the new unified market exchange rate at about MK800 per US dollar in fiscal year (FY) 2012/13⁷, they remain far short of the amount required to support the government's priority development spending initiatives over the medium term (ADB 2012). That is the concern why Myanmar needs cash injection or development aid reengagement with the international development organizations and, more importantly than the cash, a proper set of development aid policy. About 46% of the fiscal deficit in FY2011/2012 was financed through bonds; the rest was monetized by the CBM (IMF 2012). Improving revenue is essential for funding development: public expenditures on education and health care have been especially low and Myanmar is the only developing Asian country with a defense budget that is greater than the education and health budgets combined (ADB 2012). In this context of funding need of development projects of Myanmar, development aid might be a solution in the condition of if Myanmar and donor community can cooperate in the effective use of aid. From the side of donor community, it is needed to use aid as a motivational tool for the

⁶ The kyat was officially pegged to special drawing right (SDR) at MK8.5/SDR and therefore varied between MK5 and MK6 per US dollar between 2007 and 2011. (ADB 2012)

⁷ IMF (2012) estimated that the impact of adopting a market-based exchange rate on the consolidated public sector budget would be 1.2% of GDP in FY2012/13, driven mainly by an increase in the net transfers from state economic enterprises.

performance of governance while Myanmar needs to commit for the implementation of good policy environment especially good macroeconomic performance that can absorb the aid digestively.

3.3 Policy Challenges

In his study of 'Policy Dilemmas and Economic Development: A Case Study of Myanmar Economy in Transition', Tin SOE ⁸ (2008) points out that main characteristics of the policy environment of Myanmar since early 1960s under military regimes were characterized by inconsistency, instability, interruption and discontinuation, rigidity and limited scope and vision, lack of transparency, unpredictability and uncertainty, quantitative physical targets-orientation, inefficient and ineffective implementation, and use and abuse of consultancy and advisory services. He also argued that important issues like capital accumulation, value-added production, export diversification and promotion, raising real incomes and profit levels of the citizens and the producers, and macro-economic stabilization, among many others, have never been considered seriously and comprehensively. The strong influence of individualism, egalitarianism and narrow-minded nationalism on formulation and implementation of the policies and plans oftentimes distorted the original blue print of the policies and plans during implementation. As a result, despite the official claim of 'over-fulfillment' of targets, the country and its people remained poor (Tin Soe 2008). In general aspect of formulating new policies and plans to overcome these dilemmas, he suggested that the coordination of policy makers and ministries of Myanmar. For example, "the draft policies and plans go to

⁸ Visiting Professor, Graduate School of International Cooperation Studies, Kobe University. Former Professors and Head, Dept. of Economics, Yangon Institute of Economics.

the Minister concerned, and the physical is then adjusted to the financial part with the Ministry of Finance and Revenue. Ministry of National Planning and Economic Department (MNPED) is responsible for coordination or management of all these tasks in the process of planning so that the MNPED is one of the most important Ministries. The MNPED would finally submit the adjusted policies and plans to the top state body for approval. The top body will review and revise the draft plan and finally approve the plan for implementation (Tin Soe 2008). More specifically, he highlights the policy challenges for economic development of Myanmar which include:

- Stabilizing the macro-economy, especially by reforming the financial and monetary systems and containing inflation;
- Mobilizing and boosting up the domestic and foreign investments by creating a favorable environment;
- Strengthening agricultural base by revising the policy priority towards maximizing income via maximizing production or output;
- Promotion of SMEs and allied industries and encouraging value-added production;
- Privatization the SOEs or reforming them towards improving efficiency and profitability;
- Unifying the FE rates and improving the purchasing power of kyats;
- Linking the infrastructures more to productive activities;
- Diversifying and promoting exports of the value-added items and services;
- Promotion of tourism and allied services industries;
- Building up the capacity and capability of the HRs and institutions;
- Upgrading and improving the quality of education and research; and

- Alleviate poverty and corruptions.

Among these areas he mentioned, donor community should focus primarily on macro-economy stabilization, FDI, education/research, and especially capacity building of the civil servants so that Myanmar can implement good institution, good government and also strong macroeconomic environment.

In the similar vein, U Myint (2012) also points out the policy reform areas of Myanmar with the right use and right dose of foreign aid. He said, “It is not difficult to think of areas of current concern for Myanmar where a dose of foreign aid and some sound advice from neighbors and experts from international organizations and the developed world can be expected to do a lot of good. Those come readily to mind:

- Reforms to restore macroeconomic balance and stability in the country;
- Addressing the demand-pull, cost-push and structural factors that contribute to rapid inflation;
- Unification of the exchange rate;
- Reform of the monetary, financial and fiscal sectors;
- Civil service reforms, including addressing the issue of the adequacy of public sector salaries, and taking measures to change the mindset of bureaucrats so they act less like regulators and more like facilitators of business;
- Assistance in establishing the legal and institutional underpinnings necessary for a well-functioning market economy;
- Privatization and improving performance of public enterprises;
- Fighting corruption;
- Reform of agriculture and other sectors;

- Facilitating technology transfer, acquisition, adaption and assimilation, including a critical re-examination of policy regarding the Internet and Information technology;
- Reform of the education sector with special attention given to what the students, teachers, parents and education ministry people are telling us (in private);
- Giving serious thought to what to do with the energy problem;
- Trade liberalization and improving the balance of payments;
- Improving access to health facilities and promoting more efficient delivery of public services;
- Bringing underground economic activities into the legal fold;
- Ensuring safety nets are in place to take care of special needs that will arise for those that are likely to be left behind in establishing a private sector led, market-oriented economic system – such as the poor, women, youth, aged, ethnic minorities, physically handicapped and the geographically disadvantaged;
- Ensuring a state of fair competition by setting up a level playing field for the business sector; and
- Environmental protection, green and sustainable growth, and giving special attention to restoring our beloved Irrawaddy river to its former glory.

He also addressed the most urgent policy areas of macroeconomic environment of Myanmar, in particular with macroeconomic balance, unification of exchange rate, reform of the monetary/financial/fiscal sectors, performance of public enterprises, and fighting corruption. They are major drives of macroeconomic performance where Myanmar government can proof its performance and policy in order to increase

effective level of aid. At the same time, the donor community can proofread the improvement and performance of Myanmar government and institution in these policy areas by which they can estimate the effectiveness level of aid they might provide.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Introduction

This research is conducted with regard to the need of development aid policy literature for the reengagement of Myanmar with the international development organizations and aid agencies especially with the World Bank. The research questions of this study included the following:

- What is the relationship of ODA and economic growth of Myanmar during the period of 1991-2010?
- What are the crucial policy-factors in the reengagement of the World Bank Group in Myanmar that can enhance aid-effectiveness level?

This study followed a quantitative model, employing the correlation analysis on the relationship between the ODA and economic growth of Myanmar. It was also enforced by the text analysis on the development aid policy reports of the World Bank. The economic growth and ODA data were collected from reliable institutions' database and analyzed applying descriptive and inferential statistics.

4.2 Research Design

Research Designs are the plans, structures, and strategies of investigations which seek to obtain answers to various research questions (Tony Tripodi, 2006). In order to answer first question of what is the relationship between aid and growth of Myanmar on 1991~2010, this research undertakes a quantitative approach that can analyze the association pattern of development aid and economic growth. Quantitative research is a means for testing objective theories by examining the relationship among variables.

These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures (Creswell, 2008). Besides analyzing quantitative data of aid and growth, this study confirmed the previous studies on the aid-growth and the development aid policy report of the World Bank. Hence, in order to answer the second question of what are the crucial aid policy-factors in the reengagement of the World Bank Group in Myanmar that can enhance aid-effectiveness level, this study applied text analysis on prior aid-growth researches and the World Bank's aid-policy reports in particular, "Assessing Aid: What Works, What Doesn't, and Why (World Bank, 1998)".

Concerning about the levels of knowledge objectives of researches, Tony Tripodi states that research objectives can be specified on a continuum of knowledge objectives that has four distinct levels. These levels are: hypothetical-developmental (level 1), quantitative-descriptive (level 2), associational (level 3) and cause-effect (level 4). In this regard, this study attempted to contribute associational level (level 3) by pointing out the association and relation of development aid and economic growth in Myanmar during the time of 1991~2010. From the standpoint of philosophical worldview⁹, among four types of knowledge claims or philosophical worldview: postpositivism, social constructivism, advocacy/participatory and pragmatism, this study represented the postpositive worldview and knowledge claim. "The postpositivist assumptions have represented the traditional form of research, and these assumptions hold true more for quantitative research than qualitative research. This worldview is sometimes called the scientific method or doing science research. It is also called positivist/postpositivist research, empirical science, and postpositivism" (Creswell, 2009). In light of this philosophical consideration, this study claimed

⁹ Worldview – a basic set of beliefs that guide action (Guba, 1990)

postpositive knowledge by conducting empirical analysis on the relationship of aid and growth with the use of statistical linear regression model and quantitative approach. A quantitative approach is one in which the investigatory primarily uses positive claims for developing knowledge (i.e., cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of the ories), employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistic data (Creswell, 2009). In short of research design, this research can be categorized into the type of ‘mixed-methods research design’.

4.3 Data Collection and Procedure

In line with its research design, both quantitative and qualitative data are utilized in this study. The quantitative data of Myanmar’s development economics including GDP growth rate, GDP per capita, Balance of Payments, and also Millennium Development Goal is covered in this study. These data are collected from two primary sources. The first source is the Central Statistical Organization of Myanmar (CSO) and the rest is the IMF’s data catalog especially from two specific data catalogs: World Economic Outlook (WEO) and International Financial Statistics (IFS). Country profile data is followed up from the country profile data of the World Bank. Another quantitative data of the study, the ODA data including amount of ODA flow, composition of ODA from different sources are mainly collected from the World Bank’s data catalog of Aid and Development Assistance and World Development Indicator (WDI). The rest of data are taken from the data catalog of Aid Statistics from the Organization for Economic Cooperation and Development (OECD). For the

purpose of data validity and reliability, institutionally strong secondary data from the World Bank, IMF and OECD are explored in this study.

In the concern of qualitative data about development aid policy research papers, academic journals, working papers and lending policy of the World Bank, the research explored from different sources in the purpose of text analysis. For the lending policy of the World Bank, the research explored the reports from the World Bank's website. For the general development aid policy concerning about relationship between aid and economic growth, this research exploited mainly from APU portal's online database like EBSCO HOST and JSTOR. It was also secondarily followed up by the collection from Google scholar.

4.4 Data Analysis

Basically, two set of data – quantitative data of aid flows and economic growth of Myanmar and qualitative data of aid-policy reports are analyzed by two analysis methods in this study. First analysis method is statistical linear regression analysis for the quantitative data. Second one is text analysis for the qualitative data of reports and other materials. That is why, this research applied two types of analysis methods for two types of data. In the first analysis of relationship between aid and economic growth of Myanmar during 1991~2010, this research applied linear regression analysis by the Predictive Analytics SoftWare (PASW), new version of the Statistical Package for Social Sciences (SPSS). In this quantitative analysis, the dependent variable (Y) is the economic growth rate of Myanmar from 1991 to 2010 whereas the independent one (X) represents the amount of aid flow to Myanmar during that time from different types of international development organizations. By applying this

statistical analysis, this study found the relationship and association pattern between development aid and economic growth of Myanmar on the past twenty years.

For the second text analysis on development aid policy, this research confirms reports and materials of development aid effectiveness researches especially on the World Bank' report "Assessing Aid: What Works, What Doesn't, and Why (World Bank, 1998)". By conducting these statistical analysis method on quantitative data and applying text analysis method on qualitative data, this study attempts to develop the hypothesis of relationship between economic growth and development aid on the time of 1991~2010 – very first introduction-time of market economy in Myanmar under the military government.

4.5 Methodological Limitation

The major focus of this study is the relationship between the ODA and the economic growth of Myanmar by using linear regression analysis and text analysis. With the aim of data reliability, the researcher utilized reliable institutional secondary data in terms of economic data and ODA data from world leading development economic institutions such as the World Bank, the IMF, and OECD. It was also followed up some data from the CSO of Myanmar.

Though the result is statistically significant, some methodological limitations are beyond the contribution level of this study. The most obvious and inevitable limitation is the data availability from Myanmar. Although the research applied the data from the CSO of Myanmar and other international organizations like a secondary sources, the database of Ministry of National Planning and Economic Development (MNPED) is not accessible to the public during the time of research's conduct. Second limitation is that this study emphasized on the relationship of the ODA and

economic growth in order to explore how these two variables are associated and related in the sense of exploratory during the definite period, not in the sense of exploratory and not in the level of cause-and-effect and also not effect-and-cause. Since then, this study is first and young research of Myanmar's development economics focusing on the relationship of the ODA and economic growth. This area of the ODA and economic growth still need more on-going and depth researches as long as Myanmar is trying to speedy the economic reform in the future and the international cooperative scope get wider and wider, in particular with international development organizations both bilateral and multilateral.

With regard to this limitation, the researcher recommend two important areas for the future researches concerning about the impact of the ODA on economic growth and long-term development. First area is that the future researches should be enhanced to the cause-and-effect level (level 4) from the association level (level 3) in terms of knowledge contribution level of the research. These better be more than exploratory researches, these will be explanatory ones. The second recommendation goes for the area of variables. The literature of development aid policy might be more valid and comprehensive if the future researches put other macroeconomic variables like saving, investment, financial system, remittance and unemployment rate together with their impacts on economic growth and long-term development of Myanmar.

CHAPTER 5

RESULTS

5.1 Introduction

An attempt to answer two major questions of what is the relationship between the ODA and economic growth of Myanmar on the period of 1991~2010 and what will be crucial policy-factors in the reengagement of the World Bank Group in Myanmar that can enhance aid-effectiveness level is shown in this chapter. Two major findings from two data analysis methods – quantitative method on the aid-growth relationship by the use of correlation statistical model and qualitative method on the aid policy of the World Bank by the use of text analysis on the report of the World Bank and other aid policy materials. The results of quantitative study are divided into two sections – descriptive statistic figures of Myanmar socioeconomic performance and inferential statistic figure of how aid flows to Myanmar and economic growth of Myanmar are associated and related during the twenty years of 1991~2010. The outcome of the qualitative study is followed by the look on the World Bank’s report of “Assessing Aid: What Works, What Doesn't, and Why (World Bank, 1998)” and also by the look on far-reaching research works of aid-policy making.

5.2 Quantitative Results

The main output of this research is the relationship result of positive or negative or not correlated on aid-growth. This key result is done by using inferential statistical tool of correlation analysis. However, this final result is enhanced by providing the basic descriptive statistic figures of Myanmar’s economic environment so as to provide a more comprehensive framework of descriptive nature before inferential one.

5.2.1 Descriptive Figures

Descriptive statistics refers to “a set of concepts and methods used in organizing, summarizing, tabulating, depicting, and describing collections of data” (Shavelson, 1996). In order to cover the macroeconomic environment of Myanmar and the ODA climate of Myanmar, this section presents descriptive figures of three basic areas of Myanmar economy that is relevant and related for this research – (1) Macroeconomic Figures, (2) Development Figures, and (3) ODA/Aid Figures.

5.2.1.1 Macroeconomic Figures

Myanmar is basically an agricultural country. The agriculture sector accounts for over 40 percent of gross domestic product (GDP) and provides employment to about 65 per cent of the labor force. Prior to World War II in the late 1930s and early 1940s, Myanmar was a leading regional economy and a leading exporter of paddy/rice in the world. However, in the plural economy of Myanmar under British colonial rule, indigenous Burmese benefited very little from the profits of the development of Burma’s rice industry. It was greatly devastated during World War II. Much of the country’s infrastructure was destroyed during by the policies of the British and Japanese. It is estimated that approximately half of Myanmar’s national capital was destroyed during the war.

Myanmar gained independence on January 4, 1948. Since that time, we can generally divide economic development of Myanmar into

- Parliamentary democracy period: 1948-62
- Socialist-oriented period under military rule: 1962-88
- Market-oriented period under military rule: 1988 to 2011

Parliamentary democracy period (1948-62): During these times, government implemented two economic plans – Two-Year Plan & Eight-Year Plan. The Two-Year Plan by 1948 was the country's first attempt at planning. Actually, the plan was never implemented as countrywide insurrections broke out in the second half of the year. The Eight-Year Plan by a group of American engineers and economists had the object of roughly doubling the gross domestic product in the number of 31% above. But it was abandoned mainly because foreign exchange earnings from the export of rice fell due to three factors: (a) internal insecurity, (b) shortage of skills and (c) the organization and personnel policy of the government. The GDP growth during this period can be seen in Figure 5.1.

Socialist Period under Military Rule (1962-88): When the military took over the power in 1962, the economy may not have been in the best of shape based on three factors: (a) the level of GDP remained stagnant (b) declining trend in the rates of savings and investment and (c) declining trend in trade balance. Moreover, overall deterioration in the economic situation from the cumulative adverse effect of nationalization, mismanagement and improper economic policies soon began to slow, especially in rice exports. Rice exports dwindled from 1.6 million tons in 1963 to 0.64 million tons in 1967. This directly led to the drastic decline in export earnings from 1,262.7 million kyat to 500.8 million kyat during the same period. The fall in export earnings in turn led to the decline in imports, savings, investment, and growth in GDP shown in Figure 5.2.

Market-Oriented Period under Military Rule (1988-2011): After taking over the reins of government in September 1988, the SLORC (State Law and Order Restoration Council) continued with the economic reform in Myanmar that began with the lifting of the twenty-one-year-old restriction on the procurement and domestic trade of rice

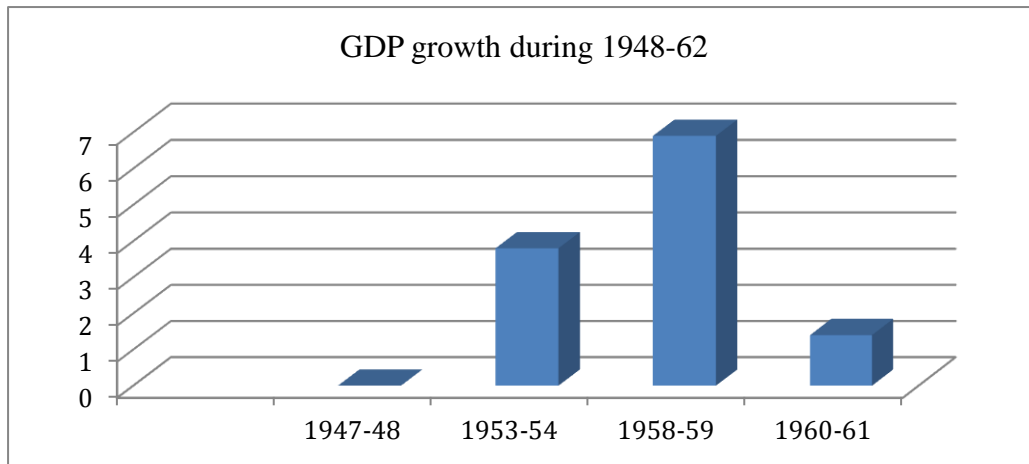


Figure 5.1 GDP growth of Burma (1948-62)
Source: Economic Survey of Burma (various issues)

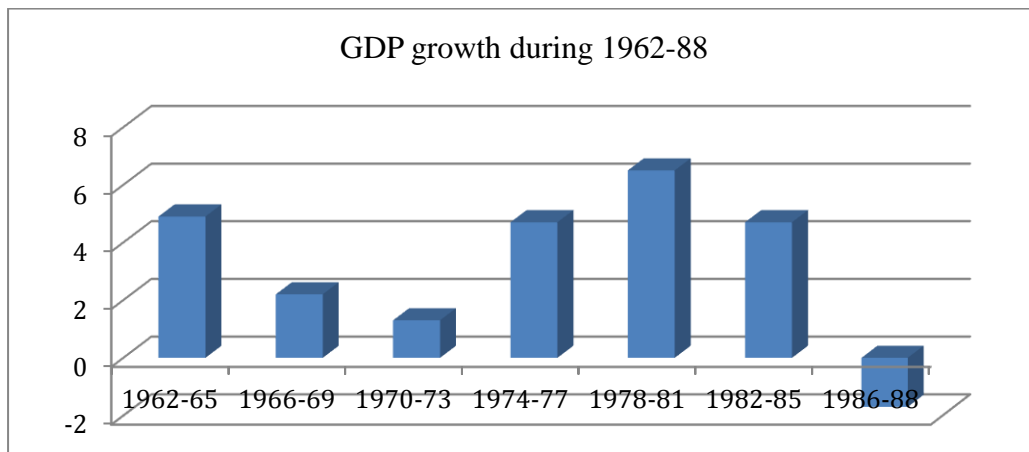


Figure 5.2 GDP growth of Burma (1962-88)
Sources: Report to the Pyithu Hluttaw on the Financial, Economic and Social Conditions for 1988/89; and Review of the Financial, Economic and Social Conditions for 1989/90

and eight other major crops in September 1987. In November 1988, the Foreign Investment Law was introduced along with the removal of restrictions on private sector participation in domestic and foreign trade. The market-oriented economic policy was officially adopted only in March 1989 when SLORC revoked the 1965 Law of Establishment of the Socialist Economic System. The official version,

presented as the four economic objectives of the SLORC, printed in bold letters on the front page of *The New Light of Myanmar* since 1996 reads thus:

- Development of agriculture as the base and all-round development of other sectors of the economy as well;
- Proper evolution of the market-oriented economic system;
- Development of the economy inviting participation in terms of technical know-how and investments from sources inside the country and abroad;
- The initiative to shape the national economy must be kept in the hands of the state and the national peoples.

At any rate, the promotion of the private sector was also instrumental in boosting GDP growth rates in the early 1990s to over 7% per annum. It will be seen also that in some ways Myanmar seems to have changed from the road to a market-oriented economy. The GDP growth under market-oriented period can be seen on Figure 5.3.

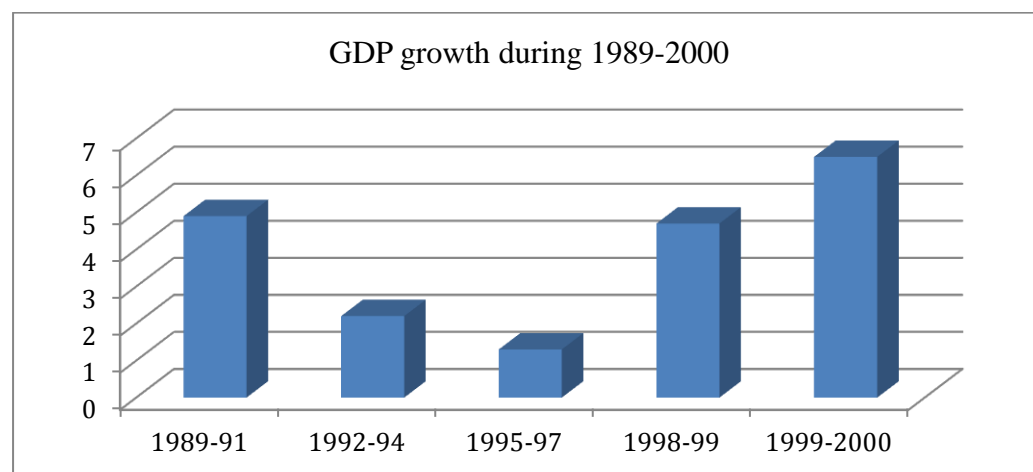


Figure 5.3 GDP growth of Burma (1989-2000)

Sources: *Review of the Financial, Economic and Social Conditions for 1998/99*; *International Monetary Fund, International Financial Statistics (monthly)*, and *Year book, 1999*.

By the overall look on these three eras of Myanmar economic performance, it is obvious that Myanmar has been faced with policy reforms at least three times in both political and economic realms. On account of making the harmony of national security objectives and economic objectives by the military regime, the performance of economy got fluctuated. Right after getting the independent from the British government, Myanmar enjoyed the economic growth under the parliamentary democracy system. It was not so long and the military government took the power on 1962 in order to control the civil war and prioritized the national security and non-disintegration of the country first of the first. On the beginning, the military government practiced the centrally planned economy. Particularly, there were three major challenges the military government faced on taking the power of the socialist-oriented (at that time) country. They can be highlighted as follow.

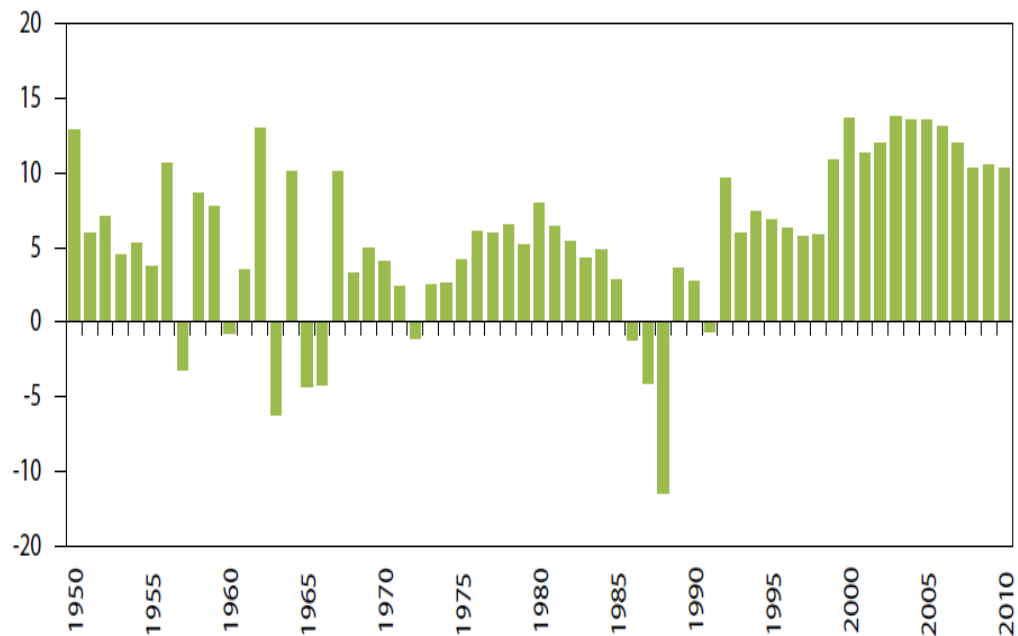
- To reform inefficient socialist economic system
- To develop agricultural and underdeveloped industrial and service sectors
- To keep the nation united

With the aim of addressing these challenges, the military government, the SLORC employed some strategies and reforms including introduction of foreign investment law, fiscal reform, financial sector reforms, legal system reforms, tourism sector reforms and trade sector reforms. From the international economics' point of view, the most historical reform of Myanmar under SLORC was changing from the socialist economy to market economy on 1989. Though the whole system was shifted from central planned system to market oriented system, SLORC made the most productive sectors – agriculture, gas/oil, forestry and manufacturing under state control. So, it was more orientated as semi-market economy rather than free market system. The objective of the government was to provide the public goods and services in minimum

price by the operation of state-owned enterprises (SOEs) in the key industries. In contrast with this objective, most of the SOE sectors supported by the government with financial aspect were poorly implemented since no motives and incentives for the operation of SOEs. In the agricultural sector, the government failed to cooperate with the farmer in the policy making of what they better grow on when. For the national security purpose, the government used a lot of budget on military sector rather than education and health sectors. It drove the country easily to the fiscal deficit and disparity amount of official and commercial exchange rate discourage international investments of both foreign direct investment (FDI) and foreign portfolio investment (FPI). Though this military-lead economic system had these weakness points of limited cooperation with farmers in the agricultural sector, poor performance of SOEs, fiscal deficit and exchange rate disparity, it also had its own strengths in economic policy making – keeping the most productive agricultural sector under the state power (to some extent, the market power of this sector could be sustained in the local), affordable price of public goods and services, gradual transition to market economic system.

The major threats that affected the economic stability of Myanmar on that time are 1997 Asian financial crisis, the suspended ODA flow to Myanmar, and 2003 Bank crisis in Myanmar. The opportunities could be highlighted as multi-fiber agreement on the World Trade Organization (WTO), natural gas and forestry products. The great economic performances right after introduction of market economy under the military regime agricultural and financial sector during 1989-1997, manufacturing (garment) sector and banking sector development during 1998 -2003, and finally natural gas and infrastructure projects during 2003-2011. From the onset of getting independent from British government to the new transition era of Myanmar (2010) with new civilian

government the economic performance of Myanmar in terms of GDP growth rate could be seen on Figure 5.4.



GDP = gross domestic product.

Sources: 1950-1987 from Myint 2011; 1988-2012 from ADB-SDBS 2012

Figure 5.4 Myanmar's Real GDP Growth Rates (1950-2010)
Source: ADB (2012)

The current basic economic figures of Myanmar covering GDP, GDP per capita, GDP growth in each sectors of agriculture/industry/services, Consumer price index, liquidity (M2), overall fiscal surplus (deficit), merchandise trade balance, current account balance, external debt service and external debt are summarized in Table 5.1. Table 5.2 shows the current balance of payments figures by Myanmar from 2007 to 2011 and the projected future balance of payments figures by 2012 /2013. It covers the trade balance of exports and imports, current account balance and the most important figure for long-term economic growth – gross official balance. Based on the

Category	Year ^a				
Economic	2007	2008	2009	2010 ^b	2011 ^b
GDP (\$ billion, current)	20.2	31.4	35.2	45.4	51.9
GDP per capita (\$, current) ^b	351.0	537.3	595.7	759.1	856.8
GDP growth (% , in constant prices)	5.5	3.6	5.1	5.3	5.5
Agriculture, livestock, fishery, and forestry	8.0	3.4	4.7	4.4	4.4
Industry	21.8	3.0	5.0	6.3	6.5
Services	12.9	4.2	5.8	6.1	6.3
Gross domestic investment (% of GDP)	...	...	...	...	...
Gross domestic saving (% of GDP)	...	...	...	...	...
Consumer price index (annual % change)	32.9	22.5	8.2	7.3	4.2
Liquidity (M2) (annual % change)	20.9	23.4	34.2	36.8	33.3
Overall fiscal surplus (deficit) (% of GDP)	(3.8)	(2.4)	(4.8)	(5.7)	(5.5)
Merchandise trade balance (% of GDP)	4.6	1.6	2.0	0.8	(0.5)
Current account balance (% of GDP)	0.6	(2.2)	(1.3)	(0.9)	(2.7)
External debt service (% of exports of goods and services)	4.6	5.1	4.3	3.1	3.9

Table 5.1 Myanmar's Basic Economic Figures
Source: ADB (2012)

projection of the ADB - official reserves amount of US\$9889 million by 2012/2013, the financial climate of Myanmar in coming year can be assumed as healthy on account of this sound reserve figures.

As a final descriptive figure of macroeconomic environment of Myanmar, the annual GDP growth rate of 1991~2010 (the years this study tries to cover and measure) is shown in Figure 5.5.

	Fiscal Year (\$ million, unless otherwise indicated)					
	2007/08	2008/09	2009/10	2010/11 (Est.)	2011/12 (Proj.)	2012/13 Proj ^a
Trade Balance	924	303	72	799	(238)	(1,779)
Exports	6,446	7,241	7,139	8,980	9,889	10,491
Imports	(5,522)	(6,938)	(7,067)	(8,181)	(10,127)	(12,270)
Current Account Balance (excl Grants)	89	(920)	(947)	(365)	(1,385)	(2,379)
Overall Balance	799	112	619	808	1,729	1,842
Gross Official Reserves						
\$ million	3,054	3,629	4,638	6,070	7,903	9,889
Months of total imports	6.6	6.3	7.9	8.9	9.4	9.7

^aAssumes managed floating exchange rates
Source: IMF 2012

Table 5.2 Balance of Payments
Source: ADB (2012)

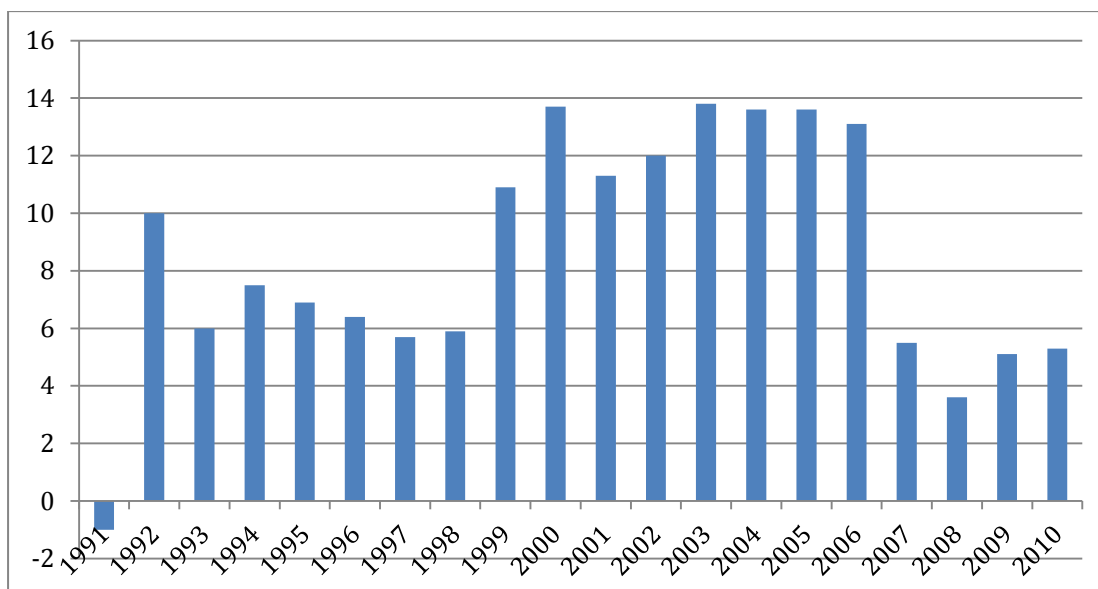


Figure 5.5 Annual GDP growth rate of Myanmar (1991~2010)
Source: the World Bank and ADB

5.2.1.2 Development Figures

In order to present a comprehensive look on the current development and poverty level of Myanmar and the development economic trends of 1990~2010, this research explores the updated development indicator of the World Bank – Development diamond indicator. Basically this diamond indicator addresses four facets of

development: life expectancy, GNI per capita, Access to improved water source and Gross primary enrollment. Specifically, this indicator covers development facets: population, GNI per capita, GNI, labor force, poverty, urban population, life expectancy at birth, infant mortality, child malnutrition, access to an improved water source, literacy, and gross primary enrollment. Another important indicator of Myanmar long-term development economics – economic ratios developed by the World Bank has also been highlighted together with diamond development indicator. This ratio is comprised of four variables of economy: trade, domestic savings, capital and indebtedness of Myanmar. In particular, this measure goes for GDP per capita, gross exports of goods and services/GDP, Gross domestic savings/GDP, Gross national savings/GDP, Total debt/GDP and so on. A joint look on two indicators of Development diamond and Economic ratios of Myanmar is shown in Table 5.3. A better clear picture of structure of the Myanmar economy especially focused on the years of 1990 to 2010 is snapshot in Table 5.4. Basically, it shows the Growth of capital and GDP during the period of 1990~2010 and Growth of exports and imports of that focused period as well. It also cover the descriptive scope of composition pattern of economy by Agriculture/Industry/Services, Imports of goods and services, Gross Capital Formation and alike. The indicator of Price and government finance from 1990 to 2010 is also shown in Table 5.5. It uncovers the Consumer prices, Implicit GDP deflator and current revenue of the government.

5.1.2.3 ODA Figure of Myanmar

The development aid flow to Myanmar has been limited since the country was leaded by the military regime. The multilateral development organizations like the World Bank and also the ADB have suspended their lending and technical cooperation in

particular the right after open-fire of the military government to the Yangon University's students and public by 1988. Though multilateral aid has been limited to the Myanmar, some bilateral aid has been flowing to the countries though they are limited amount when compared to the past. Total official development assistance flow to Myanmar especially from 1991 to 2010 is shown in Figure 5.6.

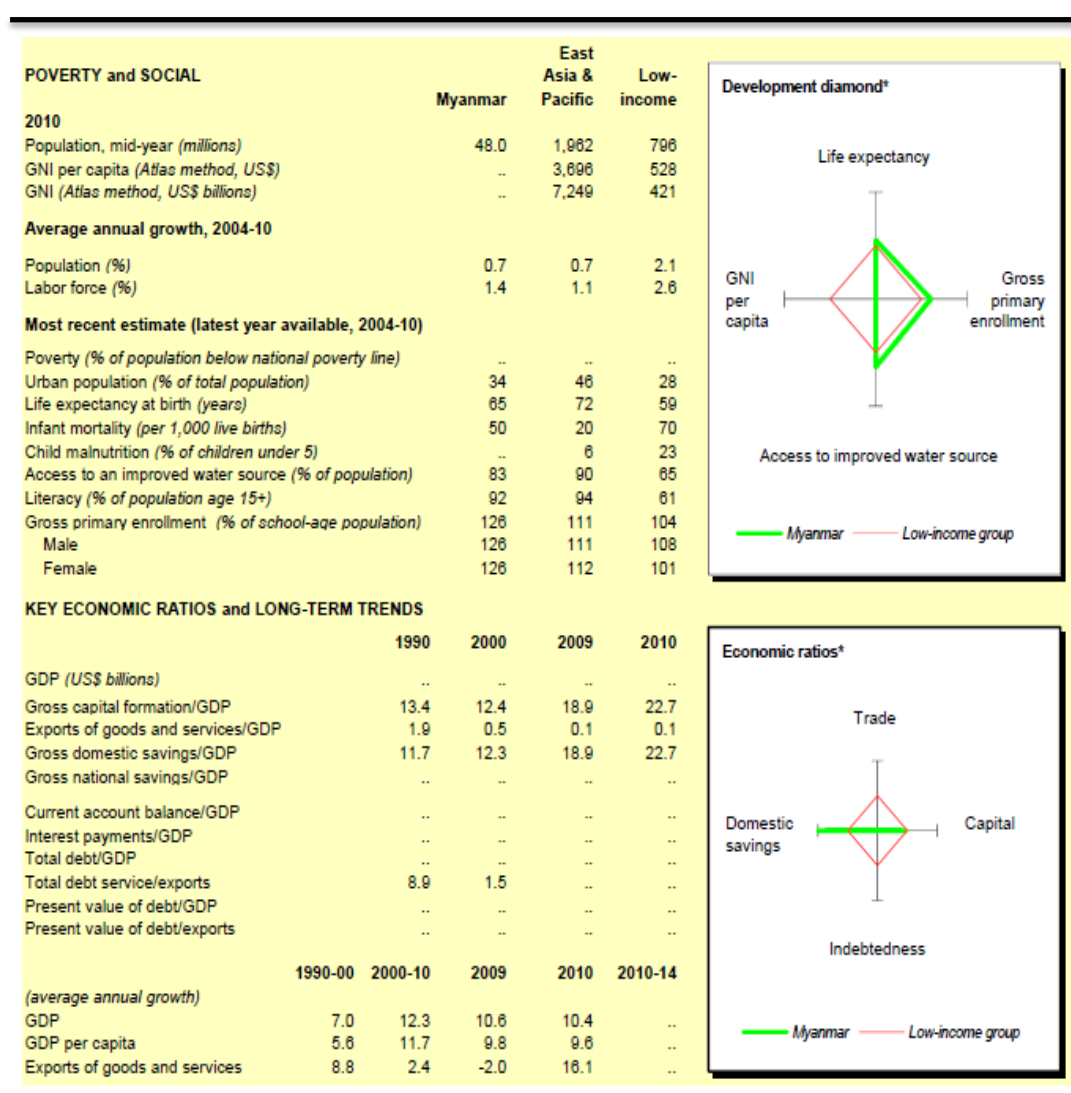
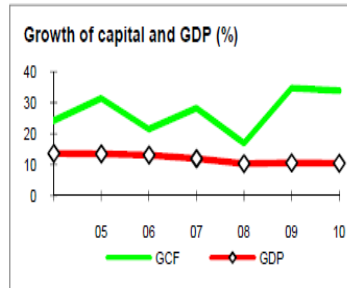


Table 5.3 Development diamond indicator and Economic ratios of Myanmar 1990 to 2010

Source: the World Bank (2012)

STRUCTURE of the ECONOMY

	1990	2000	2009	2010
<i>(% of GDP)</i>				
Agriculture	57.3	57.2	38.1	36.4
Industry	10.5	9.7	24.5	26.0
Manufacturing	7.8	7.2	18.1	19.5
Services	32.2	33.1	37.4	37.6
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Imports of goods and services	3.6	0.6	0.1	0.1



	1990-00	2000-10	2009	2010
<i>(average annual growth)</i>				
Agriculture	5.7	9.7	5.6	4.7
Industry	..	..	..	..
Manufacturing	7.9	18.7	19.0	20.3
Services	7.2	13.1	12.2	11.6
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Gross capital formation	15.3	23.7	34.7	33.9
Imports of goods and services	5.8	4.1	-18.9	57.0

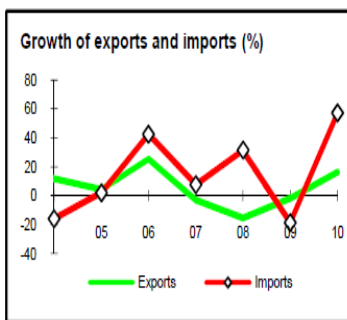


Table 5.4 Structure of Myanmar Economy from 1990 to 2010

Source: the World Bank (2012)

PRICES and GOVERNMENT FINANCE

	1990	2000	2009	2010
Domestic prices				
<i>(% change)</i>				
Consumer prices	17.6	15.6	..	..
Implicit GDP deflator	18.5	2.5	4.9	8.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	25.5	..	..	..
Current budget balance	0.0	..	..	..
Overall surplus/deficit	0.0	..	..	..

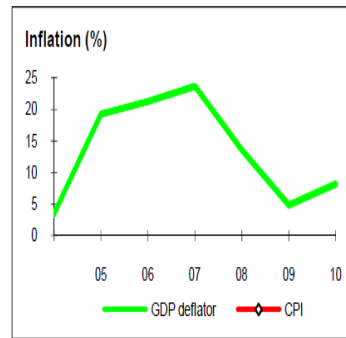


Table 5.5 Prices and government finance of Myanmar from 1990 to 2010

Source: the World Bank (2012)

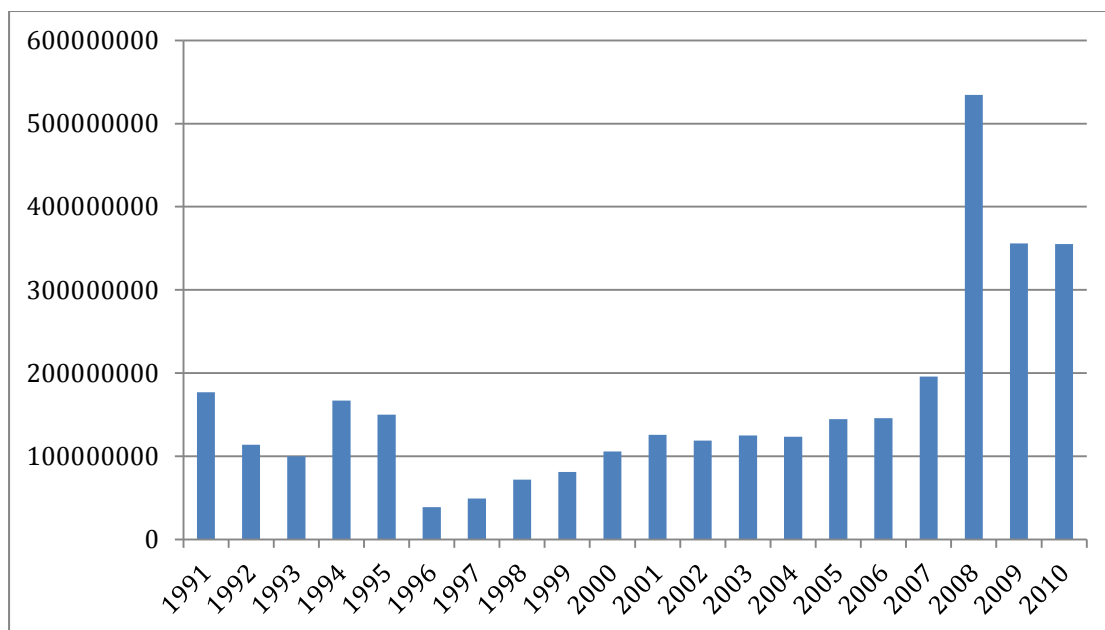


Figure 5.6 ODA flows to Myanmar from 1991 to 2010
Source: the World Bank (2012)

The major leading contributor of ODA to Myanmar is European Union (EU) and its institution. They did stand for over 60 per cent of the total ODA to Myanmar. Second leading donors are the United Kingdom and Japan. They contributed nearly 50 per cent of total flows by each country. Throughout the years of 1991 to 2010 these three countries played the key bilateral donors whereas multilateral contributions are limited and suspended. According to the statistics of OECD, by 2009-10 EU institutions contributed US\$66 million to Myanmar and United Kingdom, US\$49 million as well as Japan provided US\$ 48 million. Other donors that support ODA to Myanmar at that time are United States (US\$33 m), Australia (US\$31m), Norway (US\$20m), Global Fund (US\$18m), UNICEF (US\$18m), Sweden (US\$15m) and Germany (US\$14m). These Top Ten Donors of gross ODA to Myanmar and their contributions are illustrated in Figure 5.6.

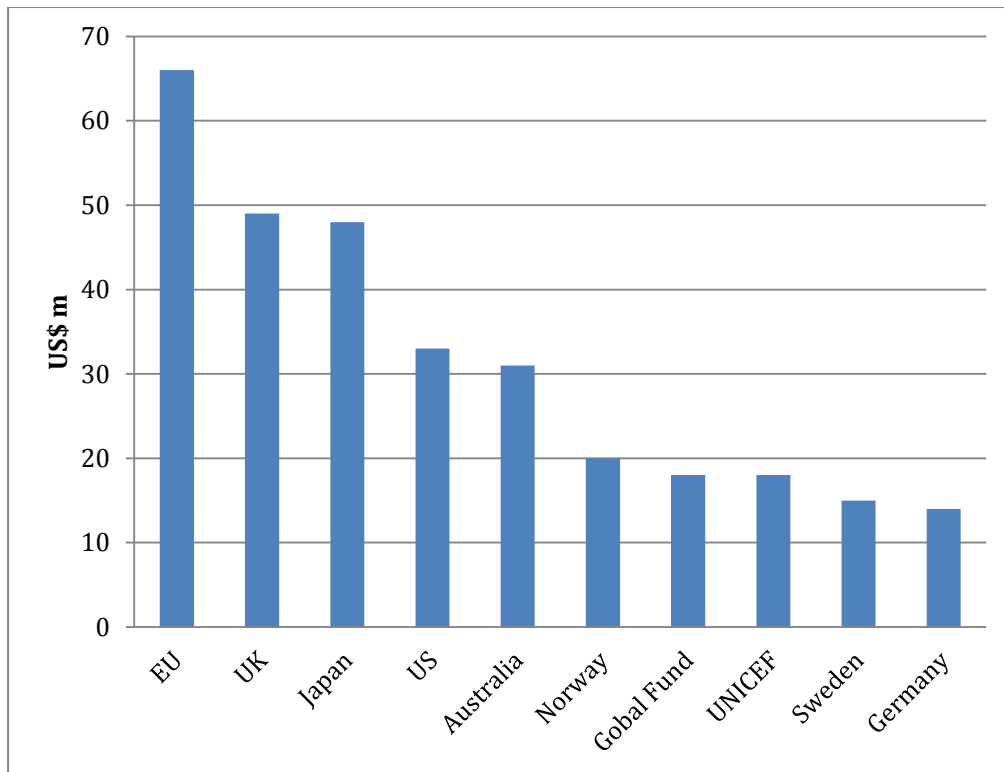


Figure 5.7 Top Ten Donors of gross ODA (2009-10 average)

Source: OECD, the World Bank (2012)

The most absorbed sector of the ODA on these years is humanitarian area and it is followed up by the health and population sector. Third flourishing areas of the ODA are other social sectors beside health.

After looking at the descriptive figures of three important areas of Myanmar related to the research problem, this study concludes the descriptive statistics section by bringing on two most descriptive statistic results of the research: descriptive statistics of the economic growth of Myanmar during 1991~2010 and another descriptive results of the ODA flows to Myanmar on same period. They are illustrated in Table 5.6.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Economic Growth	20	-1.0	13.8	8.445	4.1690
Development Aid	20	38920000	534430000	1.64E8	1.199E8
Valid N (listwise)	20				

Table 5.6 Descriptive statistics of economic growth and development aid

Source: Calculated by the author

5.2.2 Inferential Figures

Inferential statistics is “a set of methods to draw inferences about a large group of people from data available on only a representative subset of the group” (Shavelson, 1996). In order to answer the first question of this research – what is the relationship of economic growth and development aid of Myanmar from 1991 to 2010, two inferential statistical models are applied in this study. They are correlation analysis and simple regression analysis. The correlation analysis is employed to find out the relationship pattern of economic growth and aid flows whereas the simple regression analysis is applied to come out with the regression equation that can be used to predict and guess the relationship of economic growth and development aid in the future.

In the first correlation analysis, it is found that the economic growth and development aid are weakly and negatively correlated. In other words, the weak and negative relationship of economic growth and development aid is uncovered through the model of Pearson Correlation with the use of two-tailed test. Since the correlation coefficient value is (- 0.393) and not near to (-1), and not over (-0.5), it can be concluded that the relationship between economic growth and development aid is “weak negative correlation”. These results are shown in Table 5.9. This weak negative correlation between economic growth and development aid of Myanmar from 1991~2010 is also illustrated visually in Figure 5.7.

Correlations

		Economic Growth	Development Aid
Economic Growth	Pearson Correlation	1	-.393
	Sig. (2-tailed)		.086
	N	20	20
Development Aid	Pearson Correlation	-.393	1
	Sig. (2-tailed)	.086	
	N	20	20

Table 5.7 Correlation results of economic growth and development aid of Myanmar

Source: Calculated by the author

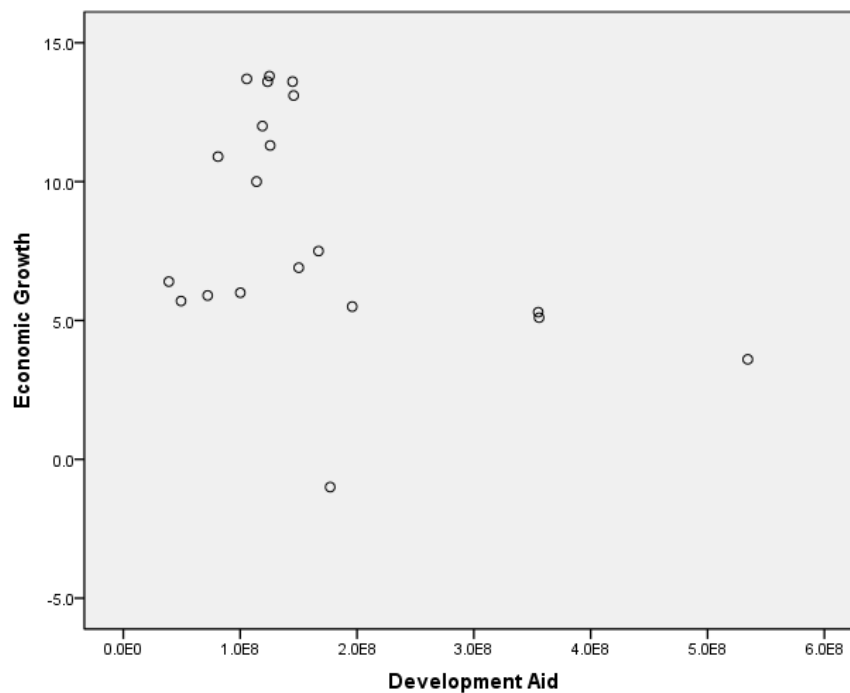


Figure 5.8 The weak negative relationship of economic growth and development aid of Myanmar

Source: Calculated by the author

For the second regression analysis and prediction, the adjusted R Square value is (0.108), it can be concluded that economic growth of Myanmar during 1991~2010 depended on the development aid only 10 per cent. In other words, the effect of development aid on economic growth of Myanmar is only 10 per cent on these 20

years. The summary of regression together with standard error of the estimate is shown in Table 5.10. The result of analysis of variance can be seen in Table 5.11. The figure of coefficient with 95 per cent confidence interval is also shown in Table 5.12. Based on this regression model and calculation, with 95 per cent confidence interval, regression equation for economic growth and development aid of 1991~2010 could be come out of “ $Y = 10.686 + 0.00000001366 X$ ”.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.393 ^a	.154	.108	3.9385

a. Predictors: (Constant), Development Aid

Table 5.8 Model Summary of Regression
Source: Calculated by the author

5.3 Qualitative Results

“Assessing Aid: What works, What doesn’t, and Why” (the World Bank 1998) is one of the influential report of the World Bank concerning about the aid-effectiveness not only on its lending policy but also development philosophy of the world. It can also express the Bank’s look on the on-going debate of aid-growth relationship and aid effectiveness.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.019	1	51.019	3.289	.086 ^a
	Residual	279.211	18	15.512		
	Total	330.230	19			

a. Predictors: (Constant), Development Aid

b. Dependent Variable: Economic Growth

Table 5.9 Analysis of Variance
Source: Calculated by the author

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	10.686	1.517		7.043	.000	7.498	13.874
Development Aid	-1.366E-8	.000	-.393	-1.814	.086	.000	.000

a. Dependent Variable: Economic Growth

Table 5.10 Coefficients of Regression
Source: Calculated by the author

The report is carefully and professionally prepared by a highly qualified research team of the World Bank. The most obvious contribution of the report is rethinking the money and ideas of Aid. In response to some voices pointing out the aid is not effective in long-term growth of the recipient countries and sometime it is harmful, the report addresses the idea of “Rethinking aid” or modifying aid and ways that can enhance the level of aid effectiveness. In the opening section of the report, concerning about two main ideas of “Rethinking aid” of the Bank, Joseph E. Stiglitz – Senior Vice-President for Development Economics and Chief Economist of the World Bank states that

“Assessing Aid is a contribution to this ongoing learning process. It aims to contribute to a larger rethinking of aid that the international community is engaged in – a rethinking in two senses. First, with end of the cold war, there is a group that is ‘rethinking aid’ in the sense of questioning its very existence in a world of integrated capital markets. In response to this trend, we show that there remains a role for financial transfers from rich countries to poor ones.

Second, developing and developed nations alike are reconceptualizing the role of assistance in light of a new development paradigm. Effective aid supports institutional development and policy reforms that are at the heart of successful development. Though tremendous progress has been made in the past 50 years, global poverty remains a severe problem.” (World Bank, 1998)

From the strategic aspect of the aid effectiveness, Assessing Aid finds out two important drives that can enhance the level of effectiveness: institutional development and policy reform. It also means that effectiveness level of aid flow that goes to countries with weak institutions and weak policy environment might be limited when compared to one that flows to good institutions and good policy environment. That kind of policy based lending policy has shifted the conditionality concept of the World Bank to selectivity concept. In this light, policy environment of the recipient country became the key variable not only for the World Bank, but also for the aid-policy makers after the report of Assessing Aid.

From the operation aspect of the aid effectiveness, the report points out two fundamental factors that can enhance the effectiveness level of aid. First, Assessing Aid found out that timing of aid, ‘right timing’ is important variable so that aid flow is working for the growth of the recipient country. Second, the right composition of aid,

‘right mix of money and ideas’ is also a major determinant of the aid effectiveness. The report argues that aid is working on good policy environment and aid selectivity should be focused on the performance of policy environment of the recipient country. However, timing of the aid additionally means that aid can be effective if it is targeted to when one country initiates the policy reform and try to improve its policy environment though not yet well fitting in. Stiglitz (1998) asserts, “The timing of assistance is crucial in helping countries improve their policies and institutions. When countries reform their economic policies, well-timed assistance can increase the benefits of reform and maintain popular support for them. Similarly, at the local level, when communities organize themselves to improve services, the availability of aid can make difference between successful and failure.” For the concern of mix of aid, the report also argues that aid in the form of money is not working on low-income countries if the macroeconomic management is not properly working. In this light Stiglitz states, “On the mix of activities, we find that money has a large impact – but only in low-income countries with sound management. Before countries reform, finance has little impact. Thus, donors need to rely on other instruments to support development in the distorted environments.”

The idea of the report – “Rethinking of Aid” highlights six main results of the aid effectiveness research. First, financial aid works in a good policy environment. Second, improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction. Third, effective aid complements private investment. Fourth, the value of development projects is to strengthen institutions and policies so that services can be effectively delivered. Fifth, an active civil society improves public services. Sixth, aid can nurture reform in even the most distorted environments – but it requires patience and a focus on ideas, not money. The

detailed explanation of this updated version of aid philosophy or rethinking of the aid is stated in the Assessing Aid as “Rethinking of aid produces the following findings:

- Financial aid works in a good policy environment. Financial assistance leads to faster growth, poverty reduction, and gains in social indicator in developing countries with sound economic management. And the effect is large: with sound country management, 1 percent of GDP in assistance translates into a 1 percent decline in poverty and a similar decline in infant mortality. In a weak environment, however, money has much less impact. A \$10 billion increase in aid would lift 25 million people a year out of poverty – but only if it favors countries with sound economic management. By contrast, an across-the-board increase of \$10 billion would lift only 7 million people out of their hand-to-mouth existence.
- Improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction. True, there have been sharp improvements in governance and policies in the past decade, but further reform of the same magnitude would fit another 60 million people a year out of poverty. When societies desire reform, foreign aid can provide critical support – in ideas, training, and finance. Efforts to ‘buy’ policy improvements in countries where there is no movement for reform, by contrast, have typically failed.
- Effective aid complements private investment. In countries with sound economic management, foreign aid does not replace private initiative. Indeed, aid acts as a magnet and ‘crowds in’ private investment by a ratio of almost \$2 to every \$1 of aid. In countries committed to reform, aid increases the confidence of the private sector and supports important public services. In

highly distorted environments, aid ‘crowds out’ private investment, which helps explain the small impact of aid in such cases.

- The value of development projects is to strengthen institutions and policies so that services can be effectively delivered. Aid brings a package of knowledge and finance. Most aid is delivered as investment projects in particular sectors such as roads, water supply, or education. Project finance, however, often does not increase spending in a sector any more than a united grant would have – that is, aid finance is typically fungible. Thus, choosing such laudable sectors as primary health or education cannot ensure that money is well used. Aid is financing the entire public sector, and the overall quality of policies and institutions is the key to securing a large return from this finance. These findings highlight that the most critical contribution of projects is not to increase funding for particular sectors, but to help improve service delivery by strengthening sectoral and local institutions. The knowledge creation supported by aid leads to improvements in particular sectors, whereas the finance part of aid expands public services in general.
- An active civil society improves public services. One good idea that many projects have supported in recent years is a participatory approach to service delivery, often resulting in huge improvements. The best aid projects support initiatives that change the way the public sector does business. The top-down, technocratic approach to project design and service delivery has not worked in area critical for development – rural water supply, primary education, natural resource management, and many more.
- Aid can nurture reform in even the most distorted environments – but it requires patience and a focus on ideas, not money. In some of the poorest

countries of the world, the government is not providing effective policies or services, which is why government-to-government transfers have yielded poor results. Still, there are often champions of local or sectoral reform, and aid at times has been effective supporting these initiatives. This work is staff-intensive and results in little disbursement of funds. Successful assistance here aims to help reformers develop and test their ideas.” (World Bank, 1998).

This idea of “Rethinking Aid” has found the characteristics of the effective aid in different situations based on the methodology of the Bank’s research team. In the purpose of rethinking development aid effectiveness policy of Myanmar, “Rethinking Aid” of the World Bank is *first* important policy factor and deserves to be taken into account in aid-policy making of the country especially in reengagement with the World Bank. Rethinking of aid should be taken into account in development aid policy making of Myanmar because each arguments of rethinking of aid can be used as a guidance of how to use the World Bank’s aid effectively. It is important for not only to use aid effectively but also to construct the way of long-term growth and development building of Myanmar.

For example, the first argument of rethinking of aid highlights the important role of economic management of recipient country in the way of using aid effectively. It is directly concerned about the current obvious policy challenges of Myanmar – macroeconomic management, fiscal policy and debt policy. Other arguments like private sector participation, effort of the country to buy effective aid, right delivery of aid, public sector and more-idea-less-money are also crucial because all are matched with the current needs of Myanmar – private sector investment, capacity building in public sector, technical assistance and idea for service delivery in order to use aid effectively and efficiently. In this context, the rethinking of aid is useful for Myanmar

not only in the formulation of aid effectiveness policy but also in the benefiting the long-term development of the country.

In addition to taking into account of “Rethinking Aid” – the characteristics of effective aid, the Assessing Aid report of the Bank contributes the policy reforms of how we can construct the characteristics of effective aid or how we can make aid effective. There are totally five policy reforms that can make aid effective and at the same time reduce the poverty. These policy reforms can be summarized as follow.

- “First, financial assistance must be targeted more effectively to low-income countries with sound economic management. In a good policy environment financial assistance is a catalyst for faster growth, more rapid gains in social indicators, and higher private investment.
- Second, policy-based aid should be provided to nurture policy reform in credible reformers. Experience shows that donor financing with strong conditionality but without strong domestic leadership and political support has generally failed to produce lasting change.
- Third, the mix of aid activities should be tailored to country and sector conditions. Even where institutions and policies are weak, donors have tried to find something useful to finance. Surely it must be a good thing to finance primary health care or basic education? The evidence, however, is that aid is often fungible, so that what you see is not what you get.
- Fourth, projects need to focus on creating and transmitting knowledge and capacity. The key role of development projects should be to support institutional and policy changes that improve public service delivery.
- Fifth, aid agencies need to find alternative approaches to helping highly distorted countries, since traditional methods have failed in these cases.

Communities and governments are heterogeneous, and even in the most difficult environments there will be pockets of reform. Donors need to be patient and flexible and look for windows of opportunity to nurture these reform efforts.” (World Bank 1998).

These five policy reforms of the report are giving the hints of the World Bank’s lending policy of its operation. Hence, these policy reforms are *second* crucial policy-factors and deserve to be taken into account in aid-policy making of Myanmar with the reengagement of the World Bank. It is crucial for Myanmar because the effective aid policy of the World Bank is reflected in these policy reform’s factors. In other words, the World Bank would run its development aid operation in Myanmar based on these policy reform’s factors since these are basic and fundamental policy of effective aid of the World Bank according to the Assessing Aid report. For example, the first effective aid’s policy reform of the World Bank states that aid should target to low income countries with sound economic management. By the look on this policy reform, Myanmar needs to address macroeconomic framework first in order to benefit aid effectiveness and to make a strategic reengagement with the World Bank. The second policy reform of aid recommends that policy-based aid should be provided to nurture policy reform in credible reformers. In the reengagement with the World Bank and in dealing with policy-based aid, Myanmar need to nurture the ongoing speedy transformation of 2010 in order to use aid from the World Bank effectively and efficiently with the credible reform. With respect to the third policy factor of the World Bank – the mix of aid activities should be tailored to country and sector conditions, the right mix of aid activities to right sectors with right conditions can enhance the effectiveness level of aid in the reengagement of Myanmar with the World Bank. The negotiation works of the World Bank and Myanmar might

determine right mix of aid, right sectors, and right conditions. In regard to fourth policy factor of Assessing Aid by the World Bank – projects need to focus on creating and transmitting knowledge and capacity. For the long-term development of the country, Myanmar needs to put first-priority on projects of creating capacity building of the country and knowledge development of the international civil servants working in institutions of the country. By utilizing these five policy factors of the Assessing Aid report, Myanmar might be able to use the international aids besides the World Bank's aid digestively and the absorption capacity of the country on the development aid will be more empowered.

On the conclusion part of the Assessing Aid, the report introduces a three-way partnership among recipient countries, aid agencies, and donor countries so as to have a greater effect on global poverty reduction through equitable and sustainable development. This idea of Assessing Aid shows the *third* important policy factor for the aid-policy making of Myanmar – how to use the aid of the World Bank effectively and efficiently in the way of cooperation with the Bank and international aid agencies. The three-way partnership approach of the Assessing Aid report is the important policy element for Myanmar besides rethinking of aid and policy reforms because the aid effectiveness level of Myanmar is not only up to the World Bank's operation, goodwill of the donors, and government capacity but also up to the level of how these three major players are harmonized and synergized. That is why aid policy makers of Myanmar need to be aware of coordination with donors and aid agencies in the sense of aid effectiveness. The performance of these three players will write the history of the development aid in the coming years of Myanmar. From the side of the recipient countries, they need to contribute their performance of policy reform and institution so as to use aid effectiveness level. Their performance appraisal can be bounded by

the active involvement of civil society in the construction of good institutions. Concerning about the donor countries and their behaviors, the report asserts, “In the successful examples of assistance donors were more cooperative than competitive, more focused on knowledge creation than on disbursing money. For donors to be more consistently effective requires changing the internal culture and incentives for line managers in donor agencies – which have often encouraged a focus on the volume of finance or on narrow measures of project ‘success’, not on the contribution of assistance to systemic change” (World Bank, 1998). On the concern of aid agencies and donor agencies, the report points out the way to a better management and evaluations for all international development agencies as follow.

- *More selective* – putting more money into economies with sound management.
- *More knowledge-based* – using resources to support new approaches to service delivery, expanding knowledge about what works, and disseminating this information as a core business.
- *Better-coordinated* – result-oriented agencies should worry less about planting their flags on particular projects and more about how communities, governments, and donors working together can improve services.
- *More self-critical* – agencies continuously should be asking themselves: Why do we do what we do? What is the impact? (World Bank, 1998)

In sum, the Assessing Aid report puts the light on the importance of policy reform of not only recipient governments but also donor community as well as aid agencies by covering all levels of policy making and implementing. Actually, this report of the Bank is not only one that highlighted the importance of policy reform in the effectiveness of international development aid. There are a lot of researches, studies and also reports (discussed in Chapter 2) that were putting the light on the death-and-

life matter of policy reform with the purpose of making more effective and efficient aid-policy. With respect to these qualitative and quantitative contributions of aid-growth researches and studies, we can conclude that international development aid need to cooperate with policy reform in order to proof aid is working and effective. In the exact metaphor of the World Bank on this cooperation of aid and policy reform, we can express that aid can be the midwife of good policies in the formulation of a good policy environment and aid can be the midwife of good institutions in the implementation of a good institutional environment.

CHAPTER 6

DISCUSSION

This chapter will cover discussion on two questions of this research – what is the relationship of ODA and economic growth of Myanmar from 1991 to 2010 and what are the important aid policy-factors for Myanmar in the re-engagement with the World Bank based on the findings of research. It will be followed up by the discussion of the way forward of Myanmar macroeconomic policy and the development aid that can mutually interact this macroeconomic policy reform.

6.1 The Development Aid and Economic Growth

In order to know the relationship between development aid and economic growth of Myanmar from 1991 to 2010, this study conducted the quantitative analysis. This quantitative analysis comprise of two statistical analysis methods: correlation analysis and regression analysis on the relationship of ODA and economic growth of Myanmar. By the two tailed test and Pearson Correlation results, the correlation value shows (-0.393) with the scatter diagram of aid-growth relationship. This correlation value states that the relationship between development aid and economic growth of Myanmar from 1991 to 2010 is negative and weak. Based on these statistical findings of aid-growth of Myanmar, this study develops the hypothesis of development aid and economic growth of Myanmar from 1991 to 2010 is negatively and weakly correlated.

6.2 The Underlying Aid-policy Factors

In order to uncover the important aid-policy factors, this study conducted qualitative analysis – text analysis on the World Bank’s aid policy report of “Assessing Aid: What works, What doesn't, and Why” and other aid-growth relationship research

papers, policy papers and reports. This study finds some policy factors in the Assessing Aid report that are relevant for Myanmar in the concerns of how to use the aid from the World Bank or where is the first priority sector of aid allocation for the country (aid usage policy). Specifically, this study highlights three important policy factors by the assessment of the “Assessing Aid”. They are the idea of rethinking of aid, more effective aid policy reforms and three-way partnership policy. First, the idea of rethinking of aid is comprised of: (1) financial aid works in a good policy environment, (2) improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction, (3) effective aid complements private investment, (4) the value of development projects is to strengthen institutions and policies so that services can be effectively delivered, (5) an active civil society improves public services, (6) aid can nurture reform in even the most distorted environments – but it requires patience and a focus on ideas, not money. On the review of these six policy factors in rethinking of aid by the World Bank, it is obvious that aid needs a good policy to be effective or aid needs to interact with a good policy for institutional development – long-term growth for the recipient country. This interaction of aid and policy also needs to be supported by the participation of civil society and private sector involvement. And finally, it has to be right time and right mix – composition of money and ideas: how much cash injection and how effective and strategic idea.

Second, this study points out another important policy factor of Assessing Aid – aid policy reforms. The idea of aid policy reforms is comprised of: (1) financial assistance must be targeted more effectively to low-income countries with sound economic management, (2) policy-based aid should be provided to nurture policy reform in credible reformers, (3) the mix of aid activities should be tailored to country

and sector conditions, (4) projects need to focus on creating and transmitting knowledge and capacity, (5) aid agencies need to find alternative approaches to helping highly distorted countries, since traditional methods have failed in these cases. Based on these policy reforms factors, it became more obvious that the role of a good policy and institution and the role of the aid – targeted to encourage the commitment of constructing this good policy and institution are highly essential in the formulation of aid policy and in the process of using aid effectively and efficiently.

Third, this study also addresses the idea of three-way partnership concept of the Assessing Aid. In this concept, recipient governments have to reform their policy environment so as to raise the level of aid effectiveness whereas the donor community also needs to be more cooperative than competitive and more focused on knowledge creation than on disbursing money. At the same time, aid agencies have to upgrade their management and evaluation by the ways of: (1) putting more money into economies with sound management – more selective, (2) using resources to support new approaches to service delivery, expanding knowledge about what works, and disseminating this information as a core business – more knowledge-based, (3) results-oriented agencies should worry less about planting their flags on particular projects and more about how communities, governments, and donors working together can improve services – better coordinated, (4) agencies continuously should be asking themselves: why do we do what we do? And what is the impact? By reviewing this partnership policy, this study highlights the mutual role of government, donor community and aid agencies that would be synergized in the aid operation of Myanmar. The cooperation and synergy of these three players is equally important and crucial of mutual enforcing function of aid and policy. In addition to review of the aid policy of the World Bank, these studies also look into the other research

papers and material of aid-growth area. The findings on that material can be grouped into three categories: (1) the research works – arguing that development and economic growth has a positive relationship such as Hansen and Tarp (2006), Burnside and Dollar (2000), (2) the research works – arguing that development and economic growth has a negative relationship such as Mosely (1987), such Lensik and White (2000), (3) the research works – standing on the moderate assumption of aid growth relationship such as Harrod-Domar (1970s) pointed out small impact of aid on growth by developing ‘Two gap models’ and Guillaumont and Chauvet (n.d) argued that a country performance of economic policy is important to make aid work. All have different points of views by using different research methodologies and different datasets. But the synergy of these different standing points, different works, and different level of debate is that ‘aid alone cannot guarantee the economic growth and sometime has a harmful for the poor management’. Based on that synergy, this study is convinced that the mutual enforcing process of aid and policy would determine the aid effectiveness level of aid in the future.

In a summary of the research findings, this study contributes two major findings: the quantitative finding – aid and growth has a weak negative relationship from 1991 to 2010 in Myanmar (answer to first question) and the qualitative finding – effective aid means aid plus good policy (answer to second question). Based on these findings, this research develops a model of Mutually Enforcing Process of Aid and Policy (MEPAP). The conceptual flow of this MEPAP model is shown in Figure 6.1. All of the development stakeholders of Myanmar including parliamentarians, aid policy makers, development assistance committee of Myanmar, and every development participants of Myanmar can utilize concrete findings of this study – MEPAP. The initiating stage of MEPAP process get started with policy itself in which though the

policy environment is not yet strong enough, the recipient government shows the willingness to reform policy and commitment to development. On second stage, the international development aid can select this region since pre-requisites criteria of selectivity match the commitment of policy reform by the recipient government. When aid starts flowing to that country, this aid itself should enforce policy reform of the country by flowing to the important areas of policy reform like institutional development and macroeconomic management that can guarantee long-term growth of the country. That concept has been expressed in the Assessing Aid in term of right timing – “the timing of assistance is crucial in helping countries improve their policies and institutions. When countries reform their economic policies, well-timed assistance can increase the benefits of reform and maintain popular support for them” (World Bank 2008). However, the right timing only will not be a good flow of aid that can raise effectiveness level of that aid. In addition to timing, another factor we need to take account of making aid effective is right mix of money and ideas or right composition of aid types: grants, loans and technical assistances.

In the concern of right mix, current international flow of aid is comprised of technical assistance (25 per cent) and other (75 per cent). In the enforcement of policy reform, aid should focus on capacity building and institutional development that is directly related to the implementation of a good policy. That is why, instead of giving heavy weight on the money of grants and loans, the lion share of aid composition should be technical assistances focusing on institutional development and capacity building. For example, instead of mixing money maximum and idea minimum, aid will be more effective if the composition pattern is “idea-maximum-and- money- minimum”. By the right mix and right timing, the flow of aid will enhance the quality of institution and performance of policy. The World Bank names this kind of right mix and right

timing aid like policy-based aid or performance-based aid (PBA). Thanks to this PBA, third stage of the MEPAP would become good policy environment that can attract not only the international development aid but also other important investment types for long- term growth of the country economy including Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). By utilizing these new flows of investment – aid, FDI, FPI, the government can construct its constitutional development and capacity building more and more. The World Bank expressed this function of aid and policy by using simple metaphor – aid can be the midwife of good policies and aid can also be the midwife of good institutions. This on-going function of aid and policy can also be speedy up by the two follow-up variables: civil society participation and private sector participation. The good news is that operation of the World Bank in Myanmar will be jointly cooperated by the International Finance Corporation (IFC) – a specialized agency of the Bank focusing on private sector. The next good news is the Bank states the name of its first grant US\$80 million to Myanmar, “Community Driven Development Project” and the Bank also expresses that the selection of the rural development projects will be decided by the preferences and proposals of community leaders and groups. It can be seen as the participation of both private sector and civil society in the future operation of the World Bank in Myanmar are enough to contribute in function of aid and policy.

Actually, the model of MEPAP (how aid and policy interact each other) is conceptually based on the second finding of this research – three important policy factors of the effective aid of the World Bank including (1) characteristics of the effective aid or rethinking of the aid (2) policy reforms of effective aid and (3) partnership strategy of effective aid among donors, agencies and government.

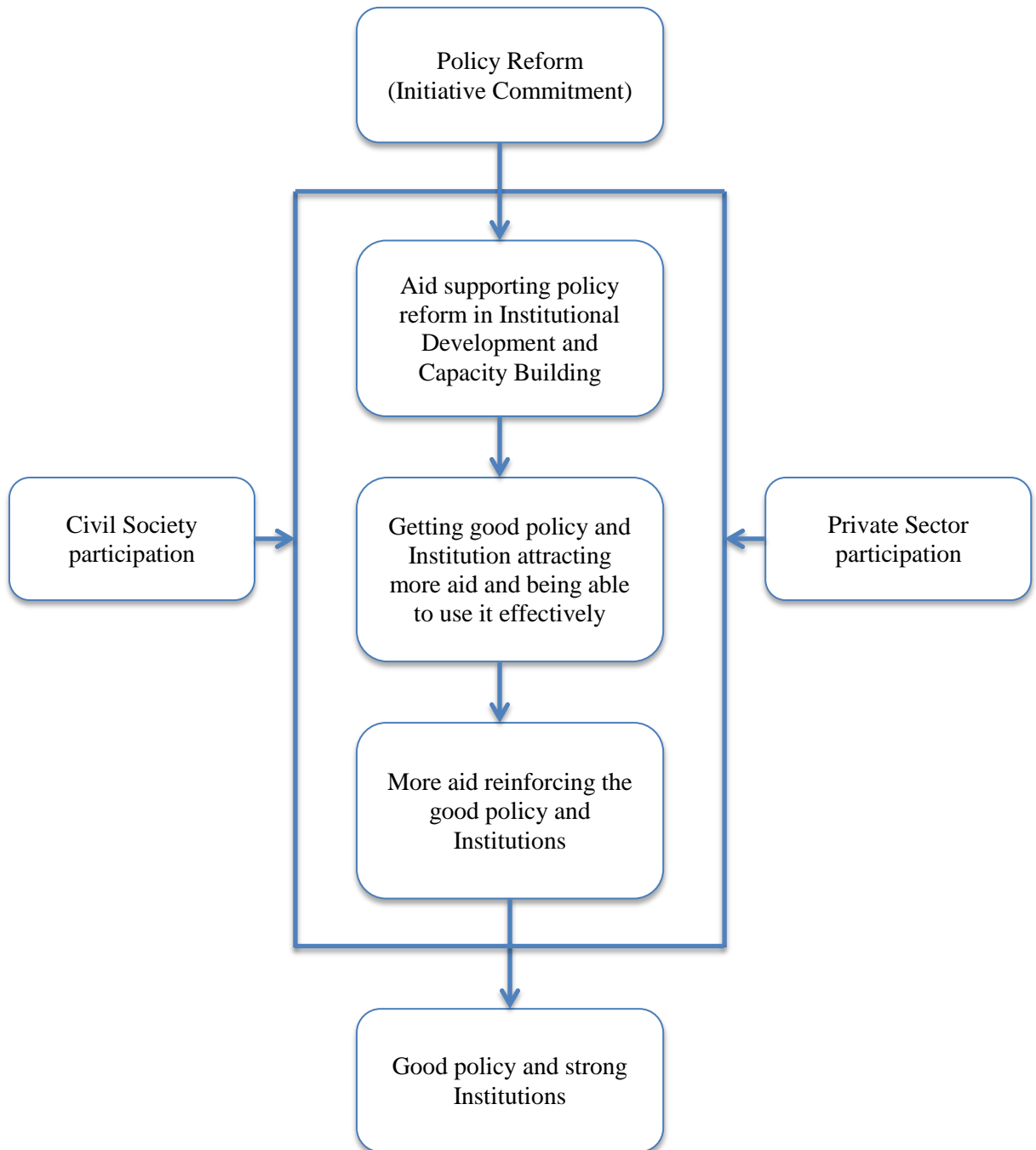


Figure 6.1 Mutually Enforcing Process of Aid and Policy (MEPAP) for Myanmar
Source: developed by the author

What is more, this MEPAP model is aimed (1) to use aid flowing to Myanmar effectively and efficiently and (2) to change the weak and negative relationship of aid and growth that was happening in Myanmar from 1991 to 2010 (second finding of this research) into strong and positive relationship in the way of using aid effectively. In other words, it is developed to change the policy weakness of Myanmar addressed in the literature review of this research. In this way, aid-growth relation of Myanmar (first finding), aid effectiveness policy in the reengagement with the World Bank (second finding) and the MEPAP are interrelated each other and dedicated for better cooperation of Myanmar and the World Bank.

Furthermore, MEPAP is also based on the prior researches of aid-growth relationship and their findings (the aid is working in good policy environment) that have been discussed in the literature review part of this research. It is also targeted to the current reform and needs of Myanmar. For example, the essential need of Myanmar reform – “capacity building” is highly prioritized in this model and this will be followed up by the participation of private sector and civil society. The importance role of private sector role in the current reform of Myanmar is obvious since the World Bank started its reengagement in Myanmar by IFC – the specialized agency of the World Bank in private sector. What is more, the World Bank encourages the participation of civil society in its first reengagement grant to Myanmar. So, these situations highlight the importance role of private sector and civil society in the reengagement of the World Bank and Myanmar. In line with these situations, the MEPAP is constructed with the specific aim of using the World Bank’s aid effectively. Hence, the MEPAP is modeled with both external look – the policy review of the World Bank and internal look – the current situations and needs of Myanmar. To some extent, it can be applied

to some developed countries depending on their policy reform's efforts, sectoral priorities and needs.

In the context of five variables of the MEPAP: aid, policy, their mutual function, and support from both private and community sectors, the mutual enforcing process of aid and policy (MEPAP) of Myanmar will be able to produce the final output of it process – good policy and strong institutions themselves and no more aid. The whole process of MEPAP starts with policy reform and ends with strong policy. So, the process of MEPAP – the contribution model of this research can also be seen in new metaphor of “Policy Reform to Strong Policy” (PRSP), not “Poverty Reduction Strategy Paper” (PRSP).

6.3 The Way Forward of Myanmar

“At such growth rates, its GDP per capita would reach \$2000-\$3000 by 2030¹⁰ – more than 3 times the current level – propelling Myanmar safely into the ranks of the middle income countries” (2012, ADB). At a glance, this figure seems to be over optimistic on the economic growth of Myanmar. But the report of ADB – Myanmar in Transition: Opportunities and Challenges points out the conditions and drives of this estimation. The ADB makes the situational analysis of current transition economy of Myanmar in terms of strengths, constraints, opportunities and risks of Myanmar. According to the report, strengths of Myanmar are (1) strong commitment to reform, (2) large youthful population, providing a low-cost labor force attractive to foreign investment, (3) rich supply of natural resources – land, water, gas, minerals, (4) abundant agricultural resources to be exploited for productivity improvement, (5)

¹⁰ ADB staff estimates. The estimates assume that population grows at 1.3% per year, which is the average for 2009-2011. Verbiest and Naing (2011) estimate that Myanmar's per capital GDP could reach \$2814-\$3361 by 2030, using a scenario of growth at 7.5%-9.5% per year with 0.83% population growth.

tourism potential. The ADB interprets that strong commitment to reform is the first strength of economic potential of Myanmar. That is totally similar what this research recommends to use aid effectively – policy reforms. It highlights that international development aid policy or international cooperation policy will play on a major role of country long-term growth. The ADB's report also points out the constraints of Myanmar economy – (1) weak macroeconomic management and lack of experience with market mechanisms, (2) limited fiscal resource mobilization, (3) Underdeveloped financial sector, (4) inadequate infrastructure, particular in transport, electricity access, and tele-communications, (5) low education and health achievement and (6) limited economic diversification. From the standpoint of constraints, ADB puts the weak macroeconomic management on first priority of constraints. That is also similar with this research argument that the aid flow especially technical assistance or idea should encourage the macroeconomic management of the recipient countries.

The strategic location, potential of renewable energy and potential for investment in a range of sectors are stated as opportunities of Myanmar's economy in the ADB's report. The major risks factor includes liberalization and economic reform risk, climate change risk, risk of pollution from speedy economic activities and ethnic conflicts. In order to address this situation strategically the ADB proposes three complementary development strategies: regional integration, inclusiveness and environmental sustainability. More specifically key development agendas are split in to the following strategies.

- “Provide macroeconomic stability. A stable macro environment provides a foundation for investment and long-term growth. Key elements of sound

macroeconomic policy include low and stable inflation; a sustainable fiscal position; and a flexible, market-based exchange rate.

- Mobilize resources for investment. Increased domestic and foreign savings are critical to meeting the enormous requirements of the private and public sectors. In addition, higher government revenues (e.g. taxation) and more efficient financial intermediation will also help to provide sustainable financing for development.
- Improve infrastructure and human capital. The removal of structural impediments in the key areas of education, health, and infrastructure can provide a basis for human capital development and improve connectivity.
- Diversify into industry and services, while improving agriculture. Broadening the economic base beyond primary industries can raise productivity and value addition. Yet agriculture, fisheries, and resource industries are not to be neglected as they contain considerable potential for expansion.
- Reduce the state's role in production. A further reduction in the government's ownership and control of productive activities can help spur competition and increase investment by creating a level playing field.
- Strengthen government institutions. Economic transformation can be supported by effective government institutions, although building institutions and their capacity may take time. Attention might focus on nurturing administrative and regulatory systems; managing resources; and most importantly, enhancing the capabilities of government personnel throughout the system.” (ADB, 2012)

This development agendas recommended by the ADB has also similar vein with the output of this research – MEPAP in some aspects. First, ADB recommends

macroeconomic stability whereas MEPAP calls for macroeconomic policy that can use aid effectively. Second, ADB recommends improving human capital whereas MEPAP calls for capacity building as a high priority sector of aid. Third, ADB recommends for reducing the state's role in production whereas MEPAP highlights private sector participation in the process of making aid effective and efficient. Fourth, ADB advocates for strengthening the government institutions while MEPAP calls for aid that can enhance the quality of government institutions and development. In this context, MEPAP comes into the one of the critical success factor in the general development agendas of Myanmar. The usefulness of MEPAP is just not here. Economist Intelligence Unit (2012) asserts three growth scenarios of Myanmar in the report of 'Myanmar: White elephant or new tiger economy'. First, core scenario stands for the ongoing reforms but with limited real structural change. This scenario holds 60 per cent possibility. Second, the golden era scenario stands for rapid political and economic reforms. This scenario holds the possibility of 25 per cent. Third, dark forces scenarios stands for the reforms are rolled back, as the military reasserts itself. This scenario holds 15 per cent possibility. Unquestionably, Myanmar hopes second scenario of golden era. One base condition of this scenario argued by the Economist Intelligence Unit (EIU) is that IMF and the World Bank quickly re-engage with Myanmar, providing key technical assistance and financial assistance, and helping the government to draft and implement much-needed economic reform. EIU pays high attention on the combination of technical and financial assistance with proper economic reform for being able to enjoy the golden era scenario whereas MEPAP calls for the proper interaction of technical and financial assistance with macroeconomic policy reform in the model for the long-term growth of the country.

In essence, the output of this research – Mutually Enforcing Process of Aid and Policy (MEPAP) or Policy Reform and Strong Policy (PRSP) showing the interaction of aid, policy, institution development, private sector and civil society: the ways of using aid in effective and efficient ways are conceptually embedded in every development agendas of Myanmar developed by the international development organizations.

CHAPTER 7

CONCLUSION

This research is conducted to know the relationship of aid and economic growth of Myanmar from 1991 to 2010 through the quantitative analysis of correlation and regression. The next objective is to know the important policy factors of aid – how to use aid effectively and efficiently for Myanmar in the reengagement with the World Bank through the qualitative text analysis of the aid-growth policy materials, papers and in particular the aid policy report of the World Bank, “Assessing Aid: What works, What doesn't, and Why”. Quantitative findings of research show that the relationship of aid and economic growth of Myanmar from 1991 to 2010 is weak and negative meaning that aid is not working on this period and on the policy of those 20 years. Qualitative findings show that the aid alone will not be working and aid needs to interact good policies and good institutions to be effective and efficient. Both methods proof that aid in poor policy environment will not be effective and effective aid needs to be functioned by the good policy environment. Based on these quantitative and qualitative findings and review of economic analysis reports of Myanmar by ADB and EIU, this study contributes the model of Mutually Enforcing Process of Aid and Policy (MEPAP) or Policy Reform to Strong Policy (PRSP).

Through the literature review and mixed method of quantitative and qualitative one, the recommendation of the study can be summarized as follow. There are three possible scenarios of development aid composition: (1) the lion share is financial assistance and side dish is technical assistance, (2) the lion share is technical assistance and side dish is financial assistance, (3) same dishes of both technical assistance and financial assistance. Of these three patterns, Myanmar should take

advantage on number two mix pattern of aid – big technical assistance and medium financial assistance because Myanmar needs aid that can directly support institutional development, capacity building and policy reform rather than short-term cash injection of aid. So, the first priority of aid policy for Myanmar is getting to know the way of catching fishes rather than getting a lot of fishes. On this right mix of money (financial assistance) and ideas (technical assistance), development aid can be injected to commitment of policy reform of Myanmar – very first step or pre-requisites of MEPAP. On second step, this right-targeted and right-composited aid will mutually function with other variables of the model: policy reform, institutional development, private sector participation and civil society participation. On third step, after interaction with these policy factors in the body frame of MEPAP model, finally young policy reform will come out with strong institutions and strong policy and it will be no more aid for that country, no aid-dependency risk, and finally the country would be able to stand out by itself with aid-independent. That process can also be summarized as, ‘Policy Reform to Strong Policy’ (PRSP).

The leading figure of social science philosopher of 20th century, Joseph Schumpeter argues that no study area is complex and deep like the philosophy of Asia because (1) the source of their philosophies is accounted from so long historic civil society and (2) they are also developed from so many and complex philo-diversity. In this context, from the standpoint of development economics as a branch of social science, Myanmar’s development is also a complex and deep issue. So, transforming to open economy brings development challenges of short-term, mid-term and long-term. Even in the daily dialogues of Myanmar, there is one proverb on every lip of people. “For tigers, a change of forest is a cause of death.” By contrast, another proverb is also used very frequently, “Without a move to a new village, good living is impossible.”

These two proverbs can represent a simple metaphor of development challenges of Myanmar. This move to opened economy can be a solution and at the same time, it can be a problem itself. There are a lot of development challenges from different standpoints and disciplines. International development aid policy – one part of international cooperation policy can also be a good drive of this reform or a rent for sovereignty depending on the policy of dealing and using them. Concerning about the policy of how to deal with aid and how to use it, this study is convinced that the right time, right composition, right place and right function of aid with policy reform, institutional development, private sector, civil society expressed in the model of MEPAP or PRSP might be able to make “aid-effectiveness” happen for the Republic of the Union of Myanmar.

REFERENCES

- Asian Development Bank. (2012). *Myanmar in Transition: Opportunities and Challenges*. Asian Development Bank. Philippines: Asian Development Bank.
- Key Indicators for Asia and the Pacific 2012. (2012). Retrieved November 10, 2012, from [http:// www.adb.org/statistics](http://www.adb.org/statistics)
- Bank Information Center. (2004). *Multilateral Development Banks and Burma*. Bank Information Center, Washington, D.C.
- Banki, S. (2009). Aid Flows, and Refugee Flows: The Case of Burma. *Journal of Current Southeast Asian Affairs* , 28 (2), 47-73.
- Bernard, H. R. (2006). *Research Methods in Anthropology: Qualitative and Quantitative Approaches* (4th edition ed.). USA: A division of Rowman & Littlefield Publishers, Inc.
- Boone, P. (2006). *Effective Intervention, Making Aid Work*. UK: CEP Centre Piece Winter.
- Bui, Y. N. (2009). *How to write a MASTER'S THESIS*. USA: SAGE Publications, Inc.
- Burnside, C. a. (2000). Aid, Policies, and Growth. *American Economic Review* , 90, 847-68.
- Camelia Minoiu, S. G. (2010). Development Aid and Economic Growth: A Positive Long-run Relation. *The Quarterly Review of Economics and Finance* , 50, 27-39.
- Collier, P. (2007). *THE BOTTOM BILLION*. New York: Oxford University Press.
- Creswell, J. W. (1998). *Research Design: Qualitative, Quantitative and Mixed Method Approaches*. USA: SAGE Publications, Inc.
- Devarajan, S. D. (2001). *Aid and Reform in Africa: Lessons from Ten Case Studies*. Washington, D.C: World Bank.
- Dollar, P. C. (1998). *Aid Allocation and Poverty Reduction* . Washington, D.C: World Bank.
- Dollar, P. C. (2001). Can the World Cut Poverty in Half? How Policy Reform and Aid Effectiveness Can Meet International Development Goals. *World Development* , 29, 1787-1802.
- Dollar, P. C. (2001). *Development Effectiveness: What Have We Learnt?* Washington, D.C: World Bank.
- Easterly, W. (1999). *Are All Countries' Growth Projections Above Average?* Washington, D.C: World Bank.
- Economist Intelligence Unit. (2012). *Myanmar: White elephant or new tiger economy?* Economist Intelligence Unit. London: The Economist Intelligence Unit.

- Fischer, J. D. (2000). *The Comprehensive Development Framework and Poverty Reduction Strategy Papers*. Joint Note, World Bank.
- World Bank Group Opens Office in Myanmar. (2012). Retrieved August 10, 2012, from <http://www1.ifc.org/>
- International Monetary Fund. (2012). *World Economic Outlook: Coping with High Debt and Sluggish Growth*. Washington, D.C, USA: International Monetary Fund.
- Kanck, S. (2000). Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis. *Policy Research Working Paper 2396* .
- Kate Bayliss, B. F. (2011). *The Political Economy of Development*. New York: Pluto Press.
- Kilby, C. (2009). The Political Economy of Conditionality: An Empirical Analysis of the World Bank Loan Disbursements. *Journal of Development Economics* , 89, 51-61.
- Koichi Fujita, F. M. (2009). *The Economic Transition in Myanmar after 1988*. Japan: Kyoto University.
- Lensik, R. a. (2000). Aid Allocation, Poverty Reduction and the Assessing Aid Report. *Journal of International Development* , 12 (3), 399-412.
- Lensik, R. a. (2000). Assessing Aid: A Manifesto for Aid in the 21st Century? *Oxford Development Studies* , 28 (1), 5-17.
- Lensink, N. H. (2002). Changing the Conditions for Development Aid: A New Paradigm?
- Mosley, P. (1987). *Overseas Development Aid: Its Defence and Reform*. Brighton: Wheatsheaf.
- Moyo, D. (2009). *DEAD AID*. New York, USA: Penguin Group.
- Myint, U. (2012). Resumption of Official Development Assistance (ODA): Views from Myanmar Perspective. *Workshop on Economic Development*. Yangon.
- Nkusu, M. (2012). *Are There Negative Returns to Aid?* Working Paper, International Monetary Fund .
- Organization for Economic Cooperation and Development . (2012). Retrieved November 10, 2012, from www.oecd.org/dac/aidstatistics
- Potocky-Tripodi, T. T. (2007). *International Social Work Research: Issues and Prospects*. New York: Oxford University Press.
- Rajan, R. (2005). Aid and Growth: The Policy Challenge. *Finance and Development* , 42 (4), 53-55.
- Sachs, W. (2010). *The Development Dictionary: A Guide to Knowledge As Power*. USA: Zed Books.

- Santiso, C. (2001). Good Governance and Aid Effectiveness: the World Bank and Conditionality. *The Georgetown Public Policy Review* , 7 (1), 1-22.
- Soe, T. (2008). Policy Dilemmas and Economic Development: A Case Study of Myanmar Economy in Transition. *Journal of International Cooperation Studies* , 15 (3).
- Stein, H. (2008). *Beyond the World Bank Agenda*. USA: University of Chicago.
- Tarp, F. (2006). Aid and Development. *Swedish Economic Policy Review* , 13, 9-61.
- Myanmar At A Glance. (2012). Retrieved November 10, 2012, from <http://www.econ.worldbank.org>
- Aid and Development Assistance. (2012). Retrieved November 10, 2012, from <http://www.worldbank.org>
- World Bank Prepares Interim Strategy Note for Myanmar. (2012). Retrieved November 8, 2012, from <http://www.worldbank.org>
- The World Bank. (2012). *World Development Indicators 2012*. Washington, D.C: World Bank Group.
- World Bank Group Steps up Support for Reforms in Myanmar with New Interim Strategy to Improve People's Lives. (2012). Retrieved November 10, 2012, from <http://www.worldbank.org>
- Thein, M. (2008). *Economic Development of Myanmar*. Singapore: Institute of Southeast Asian Studies.
- Ware, A. (2011). The MDGs in Myanmar: Relevant or Redundant? *Journal of the Asia Pacific Economy* , 16 (4), 579-596.
- White, H. Macroeconomic Impact of Development Aid: A Critical Survey. *The Journal of Development Studies* , 28 (2), 163-240.